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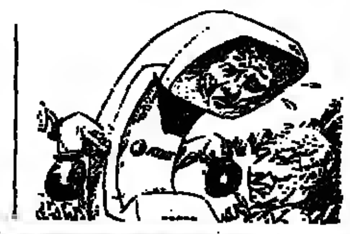
FINANCIAL TIMES

Russian industry
From nuclear subs to oil platforms
Page 3



Telecoms
Breathing new life into AT&T
Page 15

Foreign policy
US should soften stance on Iran
Edward Mortimer, Page 14

Today's surveys
South Africa
Aluminium
Separate sections

World Business Newspaper http://www.FT.com WEDNESDAY OCTOBER 22 1997

THE GLOBAL COMPANY

Fred Hassan
Pharmacia & Upjohn

'Do not lose control of your revenue generation during the merger process.'

Part seven, Page 12

WORLD NEWS

Virgin Express set for $200m flotation in US and Belgium

Virgin Express, the low-cost airline based in Brussels and controlled by Richard Branson, is floating via a dual listing in the US and Belgium, which is expected to capitalise it at $200m. Virgin Express carries 2.5m passengers a year from Brussels to seven destinations, including Rome, Barcelona and Nice. Page 16; Ticket to fly, Page 23

UBS contract ended: Massachusetts has ended the state's $120,000-a-year contract with Union Bank of Switzerland, which has been accused of shredding Holocaust-related documents. Page 5

Italian rate cut unlikely: Chances of a cut in Italian interest rates receded after Bank of Italy governor Antonio Fazio said economic conditions had still not paved the way for an easing of policy. Page 2

German aerospace plan: Germany has identified three possible structures for an integrated European aerospace industry, based on the present Airbus consortium. Page 2

UK discord over Emu: British employers and union leaders expressed dismay at the possibility that the government might rule out UK participation in Emu for the present parliament. Page 9

Soccer World Cup fears: UK home secretary Jack Straw called for co-operation between European police forces to ensure hooligans do not wreck next summer's soccer World Cup finals in France. Page 9

US warned over Nato: Nato secretary-general Javier Solana warned the US not to use enlargement of the alliance as a pretext to put pressure on its current European members to raise defence spending. Page 2

Buenos Aires hits IMF target: Argentina hit IMF targets with a fiscal deficit for September of $279.1m, bringing this year's deficit to $2.84bn. Page 5

Yugoslav election crisis: Yugoslavia's political crisis deepened when Momir Bulatovic, a close ally of president Slobodan Milosevic, refused to accept defeat in Sunday's Montenegro presidential elections. Page 3

Ramos cuts ownership limits: President Ramos of the Philippines has increased the foreign ownership limit in local investment houses from 40 to 60 per cent. Page 6

Watchdog snaps at Prudential: Prudential, UK's biggest pensions group, was sharply criticised by City of London watchdog the Securities and Investments Board for not clearing up pensions mis-selling cases fast enough. Page 8

Guyana bank sell-off: Guyana has completed the privatisation of its National Bank of Industry by selling its remaining stake to Republic Bank of Trinidad and Tobago for $20m. Page 5

ADB forecasts slowdown: Asian Development Bank forecast a sharp slowdown in south-east Asian economies. Page 6

BUSINESS NEWS

BC Partners to spend $899m on buy-outs in UK and Europe

BC Partners, one of the early entrants to the pan-European management buy-out market, has raised an Ecu1bn ($899m) fund targeted at the UK and the Continent. The fund will be invested over a period of three to four years in between 10 and 15 companies. Page 16

Swiss investors were offered the first asset-backed bond to be listed on their stock exchange as Credit Suisse First Boston brought a SFr1bn ($685m) issue to the market for Citibank of the US. Page 17

Harrisons & Crosfield announced plans to return at least £359m to shareholders after selling its building materials and agriculture interests. The group intends to change its name to Elementis and concentrate on speciality chemicals, where it is a world leader. Page 23; See Lex

China Telecom, Hong Kong's biggest flotation, saw its shares dip to their issue price in unofficial trading amid sharp falls in China-backed shares on the Hong Kong market. Page 17; Asian clouds drift nearer HK, Page 6

Hilton Hotels reported a jump in net profits from $54m to $94m for the third quarter, aided by strong performance from the hotel side and the $2bn all-stock acquisition of Bally Entertainment late last year. Page 22

Shares in Endesa, Spain's biggest electricity group, survived an early bout of selling after the state floated another tranche of its stake, closing just above the offer price to mark a successful opening for Spain's biggest privatisation. Page 17; Lex, Page 16

Bosal, a leading European maker of car exhaust systems, is doubling US manufacturing capacity to challenge the dominance of the two main US producers, Arvin and Tenneco. Page 20

Kruppe Uhde & Thyssen Rheinstahl, a joint-venture of German engineering and construction companies, signed a contract with Thailand's Songkla Petroleum to design and build a $2.2bn oil refinery and petrochemical complex in southern Thailand. Page 18

UK manufacturers are seeing export orders slide at their fastest rate since the last recession, but the Confederation of British Industry fears skills shortages may yet demand higher interest rates. Page 9

The US trade deficit climbed to $10.4bn in August, the highest in seven months. This year the deficit is running at an annual rate of $114bn, compared to last year's eight-year high of $111bn. Page 5

Olivetti is expected to finalise in the next few weeks the sale of its Olsy information technology subsidiary to Wang Laboratories of the US in a deal that could be worth as much as $1bn. Page 17

India's central bank cut interest rates by one percentage point and announced financial reforms in an effort to boost the country's flagging economy. Page 6

Emu could have positive effect, says US Treasury

By Gerard Baker in Washington

The US economy and the world financial system have much to gain if European economic and monetary unioo is executed successfully after 1999, Lawreoce Summers, the US depnty Treasury secretary said yesterday.

In remarks that cooveyed an upbeat message from tbe US administration to European governments preparing for Emu, Mr Summers, the architect of much of tbe US's global economic policy, played down previous concerns expressed by US officials. They were worried that Emu would present economic problems for Europe that could spill over to the rest of the world.

"The magnitude of the change involved is cause for coocern that something could go wrong, but not reason to believe something will go wrong," Mr Summers told a Senate budget committee bearing on the implications of Emu.

Describing the start of monetary union on January 1 1999 as "the biggest cbange in the international monetary system since the breakdown of the Bretton Woods system in the early 1970s", Mr Summers said: "If Emu works for Europe it will work for the United States. The more the single currency belps Europe develop a robust and healthy economy that is open to world markets, the more welcome the project will be."

His remarks reflect the belated realisation by US officials that Emu is a near-certainty and that the US will soon be dealing with a new form of ecooomic government in Europe.

Mr Summers said Emu raised issues about the role of the Group of Seveo leading industrialised countries, and about Europe's participation in other international organisations. "We look forward to engaging with the EU on tbese matters next year after the selection of the first members," be said.

Senior US government officials have privately expressed dcubts about whether Emu would, and should, proceed as planned. They have ooted the possibility that the pressure of irrevocably fixed exchange rates might lead to economic dislocations throughout the Emu bloc. Earlier this year, Mr Summers warned European governments that radical structural change would be necessary to ensure Emn worked.

But, although be repeated this cautioo yesterday, be said it was "encouraging to hear voices across the European political spectrum acknowledge that Emu requires structural reforms, and that Emu sbould push policies in that direction".

The US was not threatened by the prospect of a successful Emu, Mr Summers added. Senator Bill Frist, a Republican member of the committee, voiced widespread concern that a strong euro would produce a global shift in the currency allocations of investors and central banks away from US dollars, potentially forcing increases in US interest rates.

But Mr Summers said be was confident the dollar would remain the number one world reserve currency. The euro would take time to establish its credibility among investors, and, even when it did, the liquidity of US capital markets ensured that the dollar would remain the currency of choice.

Personal View, Page 14

Citicorp cuts jobs and takes $889m charge

By John Authers in New York

Citicorp, the US-based global bank, is taking a charge of $889m against third-quarter earnings and cutting its workforce by about 8 per cent in an effort to replace regional or oational structures with global operations and to cut costs.

The moves, announced yesterday, are the latest in a series by John Reed, chief execntive, to reposition the bank as a global consumer branded company. The moves bad been expected but the scala of the charge was higher than most forecasts. Citicorp shares gained strongly in morning trading, up $5 at $143⅞.

About 9,000 of tha 90,000 positions in Citicorp's global organisations will be shed within the next 12 to 18 months, although 1,500 will be created by reorganisation.

The bank is to consolidate its operating systems into one global system. Some technological functions will be out-sourced, while its front-end distribution systems will be improved.

Earnings for tbe quarter, before the charge was taken into account, were $1.067bn, an increase of 14 per cent on the $935m in the same quarter last year. Share repurchases meant that earnings per share were $2.19, up 18 per cent, before the charge.

Mr Reed said the charge reflected "cootinued pressure oo our margins and pricing and an increasingly competitive environment in virtually all our markets". He added: "We are respooding to these conditions, which are not going away, by giving central attention to quality, and by realigning our business and processing structures to give them a global configuration."

The charge includes $496m for staff severance, while $393m will cover writedowns on equipment

Continued on Page 16

Group will take charge of $1bn

ABB chief executive Göran Lindahl at a news conference in Zurich yesterday. He described the job cuts as an 'aggressive response to the Asian currency turmoil'. Picture: Reuters

ABB plans to cut 10,000 jobs as Asian problems hit home

By William Hall in Zurich and Stefan Wagstyl in London

ABB, the international electrical engineering group, plans to cut 10,000 jobs in western Europe and the US and take a near $1bn cbarge to cover the costs of restructuriog its operations, which have been hit by the economic problems in south-east Asia.

Göran Lindahl, chief executive, described the job cuts, equal to about 8 per cent of the workforce in the countries affected, as an "aggressive response to the Asian currency turmoil". He said many of the cutbacks would have been taken over the next three to four years but he had decided to bring them forward to "accelerate ABB's local expansion in Asia and further improve the productivity of its western operations".

ABB has been one of the leading companies exploiting the emerging markets of south-east Asia and its fortunes are increasingly tied to the prosperity of a region which supplied a quarter of its $36bn order book last year. It suffered a serious setback in September when the Malaysian government postponed tbe Bakun dam project, which at $5bn was the biggest contract in ABB's history.

The company's move is the latest in a wave of job cuts which have swept Europe as companies have responded to competitive pressures.

It was the third announcement this week of cuts in European engineering. On Tuesday, Adtranz, the rail transport joint venture between ABB and Daimler-Benz of Germany, announced 3,600 job cuts in Germany and Italy. SKF, the Swedish rolling bearing maker, announced the loss of 2,000 jobs, nearly 5 per cent of its workforce.

Other groups whicb have announced snbstantial job cuts this year inclnde Siemens, the German electrical engineering group, Electrolux, the Swedish household appliances company, Peugeot and Renault, the French carmakers, and Michelin, the tyre group.

ABB will take an $850m charge in its fourth quarter to cover the restructuring, which will affect its operations throughout Europe as well as in the US. The company warned that even before the charge its 1997 net income would be "somewhat lower" than last year's $1.2bn.

ABB is taking a $100m charge to cover the delay of the Bakun project and another $100m to cover its share of the restructuring costs of Adtranz. ABB shares fell SFr50 to SFr2,120 yesterday.

ABB employs nearly 140,000 people in western Europe and north America, or more than four times as many as in Asia. Mr Lindahl said the Asian economic problems have reduced consumer spending and put pressure on products imported from higher-cost countries in Europe and north America.

Swinging the axe, Page 20

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8026.06	(+104.82)
NASDAQ Composite	1706.51	(+21.06)
Europe and Far East		
CAC40	2989.89	(+43.18)
DAX	4139.50	(+98.75)
FTSE 100	5225.9	(+14.9)
Nikkei	17,210.09	(-84.42)
US LUNCHTIME RATES		
Federal Funds	5⅝%	
3-mth Treas Bills: Yld	5.072%	
Long Bond	99⅝%	
Yield	6.421%	
OTHER RATES		
UK: 3-mo Interbank	7⅜%	(7⅞%)
UK: 10 yr Gilt	104.75	(104.73)
France: 10 yr OAT	98.30	(98.27)
Germany: 10 yr Bond	102.15	(102.11)
Japan: 10 yr JGB	108.87	(108.90)
NORTH SEA OIL (Argus)		
Brent Dated	$19.33	(19.335)

GOLD		
New York: Comex		
(Oct)	$322.3	(323.0)
London:	$323.25	(324.05)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.63415	
DM	1.78965	
FFr	5.99705	
SFr	1.49015	
Y	120.855	
London:		
£	1.6349	(1.6305)
DM	1.7851	(1.7714)
FFr	5.9802	(5.9390)
SFr	1.4838	(1.4716)
Y	120.405	(121.30)
Tokyo close		Y 120.755
Sterling		
DM	2.9184	(2.8883)

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Inside

COMMENT & ANALYSIS

Keeping an eye on the mains chance: Technology, Page 10

TECHNOLOGY

EMERGING MARKETS

FINANCE

Bank dashes Italian rate cut hopes

By James Blitz in Rome

The prospect of an immediate cut in Italian short-term interest rates dwindled yesterday after the governor of the Bank of Italy said economic conditions had still not paved the way for an easing of monetary policy.

Although Italian consumer price inflation figures for October looked set to be slightly lower than market analysts had been expecting, Antonio Fazio, the bank's governor, told a parliamentary commission that he could not agree with claims that the way was now clear to ease policy.

Appearing at a meeting of the Italian parliament's commission into the 1998 budget, Mr Fazio was asked whether the country bad now entered a period of monetary stability and low inflation.

"I disagree," he replied. "In a country that has had high inflation for 25 years, you cannot say that you have entered a period of stability and low inflation after a few months."

Mr Fazio – who has kept Italian rates at comparatively high levels in tha run-up to Italy's single currency bid – also appeared to criticise tbe government's recent attempts to rednce spending on pensions in the 1998 budget.

He said Romano Prodi, the prime minister, still had to set out "in concrete terms" precisely what the final reductions in pensions spending would amount to. He said current pensions reductions under discussion – around L4,000bn ($2.3bn) for 1998 – were "inferior" to draft proposals set out by the government earlier this year.

"What is necessary is a range of cuts that have a durable impact on the public finances," Mr Fazio told the commission, adding that it was "essential over time" to reduce the proportion of gross domestic product taken up by pensions spending.

Italian overnight rates were yesterday trading at around 6.81 per cent following Mr Fazio's comments, against a German repo rate of 3.3 per cent. His views on both pensions and inflation were immediately interpreted by market analysts as a sign that he would not reduce Italian interest before the end of the year.

Preliminary consumer price inflation figures for a range of Italian cities last night appeared to undermine Mr Fazio's concerns on inflation. The figures – which cover the first batch of Italian cities covered by an official monthly survey – suggest Italian consumer prices could rise from an annualised 1.4 per cent in September to around 1.6 per cent or 1.7 per cent in October.

Economists had been predicting that the final figure would jump to between 1.8 per cent and 1.9 per cent this month.

Tietmeyer warns on deals over EMU members

By Andrew Fisher in Frankfurt

Hans Tietmeyer, president of the Bundesbank, warned yesterday that political compromise in the choice of members of European monetary union could lead to higher interest rates in the euro area.

He added that auch a development could harm the economies of the countries that signed up to Emu.

Any compromises which jeopardised financial stability could also lead investors to move funds to other financial centres and currencies, he said.

The decision on Emn membership is dne next May. Mr Tietmeyer said that a credible choice of participants – based only on proven and continued progress towards meeting the convergence criteria set out in the Maastricht treaty – would be respected by financial markets.

This would ease the task of fixing bilateral conversion rates between member countries.

Mr Tietmeyer said ha was convinced that the euro could follow in the footsteps of the D-Mark as a worldwide investment and reserve currency, extending the role of the German currency.

"But international acceptance cannot be decreed," he said. This would depend on confidence in the policies of the future European Central Bank (ECB) and continued economic and political harmony in Europe.

Mr Tietmeyer added that governments' efforts to co-operate in combating structural problems such as unemployment sbould not lead to interference with the independence of the ECB. Last week, France and Germany agreed that Emn countries should co-ordinate economic policy through an informal body that preserved the ECB's independence.

"Whoever encroaches on the independence of the ECB endangers the international reputation of the euro," be asserted. "Confidence in the future stability of the euro in financial markets would decline, with negative consequences for interest rates and the external valne of the euro."

Mr Tietmeyer said central banks would have to follow "a credible policy of stability" to help build confidence in the euro in the run-up to Emu. Inflation must be dealt with in good time to avoid burdening the euro.

He said the latest rise in the Bundesbank securities repurchase (repo) rate from 3 per cent to 3.3 per cent had to be seen in this context. Further moves would depend on how markets and economic data developed.

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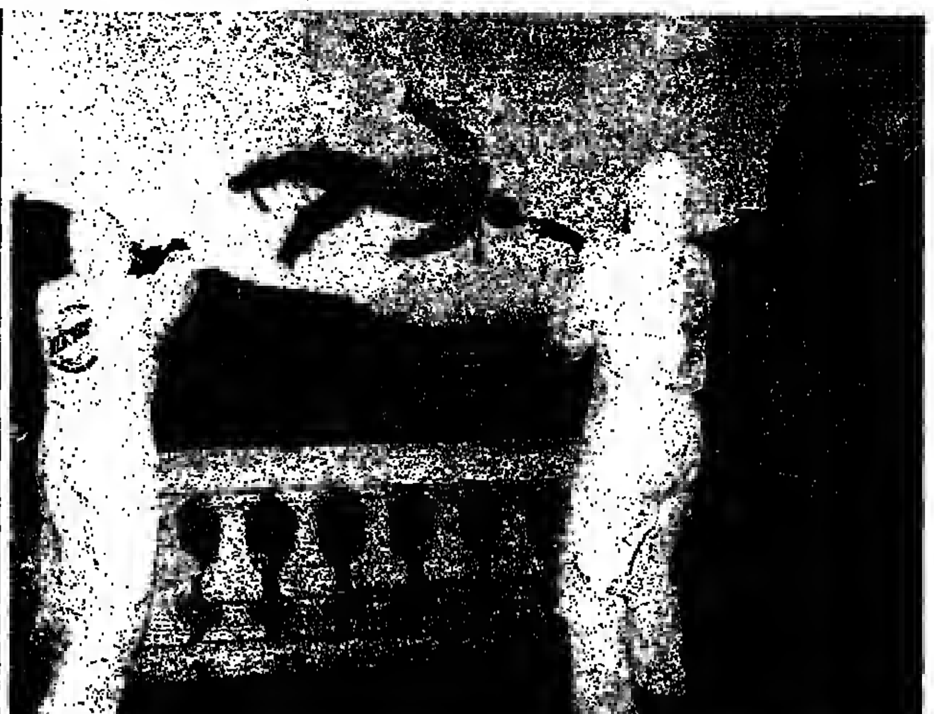


Overboard: Demonstrators throw a dummy into the Seine where Algerians were killed by police in 1961. Activists claim 200-300 were killed although the official count is three Reuters

Papon trial triggers Gaullist era probe

By Robert Graham in Paris

The war crimes trial of Maurice Papon, the former Vichy official, is threatening to turn into a forum not just for investigating the behaviour of French civil servants but for questioning the hallowed reputation of Charles de Gaulle.

The prospect of scrutinising de Gaulle's wartime activities and his post-war presidency bas sbarply raised the political temperature surrounding the 12 day-old trial in Bordeaux.

The most inflammatory comments have come from Jean-Marie Le Pen, leader of the far-right National Front, who observed: "It was more comfortable to resist [the Germans] from London than in Paris."

By denigrating de Gaulle, who operated the headquarters of the French Resistance from London, and exposing France's long-standing ambiguity towards the collaborationist Vichy government, he hopes to attract supporters away from the centre-right heirs to the Gaullist tradition. A weakening of the Gaullist image serves the interests of the current Socialist-led government and the left in general.

Early on in the trial, attention shifted to Mr Papon's role as Paris police chief during the latter stages of the Algerian war of independence, when de Gaulle was president of France.

Mr Papon was reminded of the savage repression of an Algerian demonstration in Paris on October 16, 1961. The official death toll was three dead in one of the most controversial incidents on French soil during the bitter Algerian struggle.

Algerian groups and opposition politicians alleged at the outset that between 200 and 300 people had died, and that some bodies were found floating in the Seine.

No sooner had the matter been raised in court – emotively, on the 36th anniversary – than Cathérine Trautmann, the culture and information minister, promised to open tbe state archives for 1961. If all the evidence is examined, embarrassing information could come to light of alleged official complicity in a cover-up.

Philippe Séguin, leader of the Gaullist party, has fumed against what he regards as the manipulation of the case against Mr Papon, who is accused as a Vichy official of helping to organise the deportation of over 1,500 Jews from the Bordeaux area during the German occupation.

Mr Séguin had an open letter published yesterday in Le Figaro, entitled "Enough! Enough! Enough!". He complained the trial had become a pretext "for two indictments – that of Gen de Gaulle and Gaullism, and of France".

Lionel Jospin, the Socialist prime minister, felt obliged to intervene yesterday to calm passions. Addressing parliament, he insisted that the Papon trial concerned a single man – not an era. Nor should it be directed against de Gaulle or undermine France's self-esteem.

However, tha government's decision to open the archives is likely to complicate matters, and jurists may question whether it is just for Mr Papon, accused of crimea committed two decades earlier.

Focus of Nato enlargement debate shifting to money

Solana warns US not to push allies on finance

By David Buchan, Diplomatic Editor in Brussels

Nato's aacretary-general, Javier Solana, cautioned the US yesterday not to use enlargement of the alliance as a pretext to put pressure on its current European members to raise their defence spending.

"We have to distinguish very clearly between what Nato needs for the 21st century and what are the needs for Nato for enlargement," Mr Solana said.

He said that in add a controversy about general Nato moderniaation to the enlargement issne "could make a tremendous mess" of the debate over ratifying the admission of the Czech Republic, Hungary and Poland into the alliance.

Now that the three countries have virtually completed negotiations on political and legal aspects of joining Nato, the issue of alliance enlargement appears to turn almost entirely on money.

Next month Nato is due to finish its report on the direct costs of linking the three central European countries to the alliance command, communications and air defence network. Nato has agreed not to station outside forces in the new members.

The report is expected to put direct costs at $4bn-$5bn over 10 years. The three new members would only pay 4 per cent of the total.

But recent government and academic studies in the US have produced far higher estimates of the cost of enlargement, partly by including the need for existing Nato members, mainly in Europe, to improve their capacity to rush reinforcements to Nato's new members in a crisis. A recent Pentagon report pnt total enlargement costs at $27bn-35bn over 10-13 years.

Mr Solana called such reports "misleading". Nato has long been poised to reinforce distant terrain in Norway and Turkey, The organisation'a staff are confident that existing strategy and resources can cope with extending Nsto defence further eastwards.

The Nato secretary-general said the Europeans had "in general terms met" 1992 commitments to make their forces more mobile. But US officials queried this, pointing to the lack of fuel tankers, trucks and mobile hospitals in, for instance, the Germany army. "It is one thing to say there are no extra requirements arising from enlargement, it is quite another to claim that all countries are meeting their existing requirements," said one US official.

Nato officials are, however, equally critical of comments by President Jacques Chirac of France and Mr Volker Rühe of Germany that their countries intended to pay no extra for enlargement, at a time when the US Senate is already suspicious of Europeans dodging their obligations.

Mr Solana said he hoped Nato's debates over enlargement and its future role in Bosnia would be kept separate in substance and timing. There is growing confidence at Nato headquarters that the US will agree to keep some troops on the ground in Bosnia beyond the planned disbanding of the Stabilisation Force (Sfor) next June.

But there is also anxiety about getting some US commitment nailed down soon. "It is very difficult to analyse now what will happen in 1998," said Mr Solana, "bnt for the international community to abandon the Dayton peace process and accept partition would be a catastrophe".

● Lientenant General Viktor Zavarzin was yesterday appointed as Russia's first military representative to Nato.

Lammert files Airbus flight plan

Germans push towards an integrated European air industry, writes Peter Norman

The German governmant has identified three possible structures for an integrated European aerospace industry based on the present Airbus consortium. It also wants agreement on future joint development and manufacture of military aircraft to be part of a planned accord on reshaping the industry.

In an interview with the Financial Times, Norbert Lammert, German government co-ordinator for aeroepace affairs, said Bonn expects the French government, owner of Aerospatiale, one of the Airbus partners, will have a stake in the industry "for the foreseeable future".

There would, however, be no dominant state influence over the four-nation Airbus consortium after it becomes a limited company by 1999. State and private shareholders "will have precisely the same rights", be said. "Also, tbe French state share in such a European company wonld necessarily be a minority stake, just as would those of Dasa (Daimler Benz Aerospace of Germany) and Britisb Aerospace," the other main Airbus partners, in the private sector.

Mr Lammert, a state secretary in the transport ministry, insisted the German government does "not have the ambition to do industry's job and define appropriate corporate structures for the industry. That would be a step backwards from what has happened in Germany and the UK: namely to reduce state dominance and create an entrepreneurial approach in a sector that is subject to strong political influence."

But Helmut Kohl, the German chancellor, is taking a keen interest in the creation of an integrated European industry to compete with the merged Boeing and McDonnell Douglas of the US. The issue was prominent in bilateral discussions between Germany and France on August 28 in Bonn and last month in Weimar, and has aince been carried further in Bonn, Paris and London.

Mr Lammert believea these talks will lead to a "broad and relatively concrete political agreement, especially between Germany, France and the UK, which would make clear thet we want a viable, competitive European aerospace industry and want this to be a joint venture." It would demonstrate that more ia required than enhanced co-operation among European aerospace companies.

"One can imagine various structures for the industry," Mr Lammert said. "One would be an Airbus-plus solution in which there would be a new integrated Airbus aystem which would include additional activities. Another option would be the complete merger of the three big companies that are partners in Airbus, but exclnding certain activities, such as engine making or possibly regional aircraft.

Model of the future: An impression of Airbus's planned A3XX

"Another possible solution would be that the Airbus partners create a holding company in wbicb they would have stakes roughly corresponding to their existing stakes in the project. Operating companies would then be set up under the holding company for narrow bodies, wide bodies, for the A3XX, which I consider an urgent priority, perhaps for military transport and for satellite activities.

"Such an arrangement would allow us to secure the future of the European industry while opening up certain operational areas for partners in Europe, such as the Italian and Swedish manufacturers, and elsewhere". Potential partners could include companies in China, Russia or the US.

There bave been suggestions of a link between an integrated European industry and Lockheed of the US following Lockheed's abandonment of its own civil aircraft production and in the light of Airbus's plans to build the A3XX rival in Boeing'a 747 jumbo jet.

Mr Lammert does not consider the restructuring of the European aerospace industry to be a "rejection" of transatlantic co-operation. "Rather, I see it as a necessary condition for co-operation with US producers in the sense of co-operation among equals on joint projects. The European industry has not had this opportunity up to now. Instead, Europe's role has been as a subcontractor in US projects."

The German government also wants integration in the military sector. "I see agreement on the future joint development and manufacture of military aircraft as part of the accord on integrating the industry," Mr Lammert said. "This is necessary because otherwise there would be speculation about a de-coupling of civil and military activities. Joint military aircraft projects would come later.

"Both in helicopters and combat aircraft, we have far greater capacity than the US and yet only a fraction of their market." Europe will be unable to have the luxury of producing three rival aircraft (the four-nation Eurofighter, the French Raphael and the Swedish Gripen) in the future. This is "a luxury which not even the US can afford".

Mr Lammert was optimistic that the European aerospace industry will come together.

But the industry must act soon. "If Europe does not have a new structure for the industry by the end of the 20th century, it will have no relevant aerospace industry in the 21at century", he warned.

NEWS DIGEST

Yeltsin sees motion dropped

Russia's Communist party yesterday blinked in its confrontation with Boris Yeltsin and promisedin withdraw a no-confidence motion in the government. The vote was to have been held in parliament today.

Gennady Zyuganov, the Communist party leader, said Mr Yeltsin had satisfactorily answered most of his faction's demands during a meeting with parliamentary party leaders in the Kremlin – even though the president made clear his government would not deviate from its current economic course.

But Mr Yeltsin said he would withdraw a controversial new tax code from parliament and submit it to a commission of ministers and MPs. He also promised to hold regular talks with the two speakers of parliament and discuss economic policy with parliamentary leaders, ministers, and trade union representatives.

"Neither the Russian people, nor you, nor we need this squabble," Mr Yeltsin told the parliamentary leaders.

Senior ministers will now press parliament to withdraw the no-confidence motion completely rather than have it hanging over their heads. *John Thornhill, Moscow*

■ SHIPPING

Italy ordered to repay aid

The European Commission has ordered the Italian government to repay more than L12bn ($7m) of state aid granted to the shipping sector in Sardinia because it was in breach of European Union aid rules.

Brussels objected to the terms of the scheme partly on the grounds that it was discriminatory – ship operators were eligible for aid only if they employed Sardinian seafarers – and partly because it was conditional on operators having their head office in Sardinia.

Unnotified state aid to a Spanish textiles producer will also be subject to a Commission probe.

Brussels has received a complaint from a competitor in the viscose fibres sector that SNIACE in Cantabria was kept going artificially through a series of rescheduled debts. *Emma Tucker, Strasbourg*

■ TURKEY

Çiller's husband charged

A Turkish prosecutor said yesterday he had charged the husband of the former prime minister, Tansu Çiller, with altering documents about the family'a holdings in the US.

Ozer Çiller is accused of changing figures on balance sheets of a management company the family owns in New Hampshire. The GCD corporation, based in Salem, oversees their real estate holdings in the state, which include a hotel, a mall and several houses. The prosecutor, Metin Olmez, said the figures had been lowered to make it look as if the company was making less money than it actually was. He did not give the figures. Mrs Çiller dismissed the accusation as "a defamation campaign".

The charge of altering official documents carries a maximum sentence of eight years and six months in prison, the prosecutor said. Mrs Çiller, a US-educated economist, served as Turkey's prime minister from 1993 to 1996. *AP, Ankara*

■ DANISH NURSING HOME DEATHS

Assistant accused of murder

A 32-year-old assistant at a private Copenhagen nursing home was accused yesterday of the murder of 22 elderly patients, 15 women and seven men, by substituting pain-killing drugs for their normal medicine.

At a preliminary examination in court the woman, who was also accused of the theft of DKr620,000 ($92,000) from patients, denied all the charges. A magistrate later released her, indicating that the accusations were not yet fully substantiated.

A woman doctor, aged 50, who supervises the bome, was also charged with manslaughter and aggravated neglect of her duties. The court banned the publication of the names of the two women and the nursing home, as is normal Danish court practice. Police said that they had investigated a total of 64 deaths at the bome between August 1994 and March 1997, when the nursing assistant was dismissed. *Hilary Barnes, Copenhagen*

■ SATELLITES

Europe 'may go it alone'

Europe may develop the next generation of communications satellites on its own if it is unable to strike a deal with the US or other international partners, Neil Kinnock, European transport commissioner, said yesterday.

The satellites, used to control increasingly sophisticated in-car navigation systems, will be needed to replace the current generation of military satellites operated by the US and Russia, he told the Fourth World Congress on Intelligent Transport Systems.

"My preference would be to develop a single global system with our international partners," Mr Kinnock said. "But that course could only be followed if there were genuine collective control over the system, firm guarantees that the service could not be withdrawn under any circumstances and an opportunity for European industry in compete in all segments of tha market."

He said a European designed system would be designed to be compatible with any other, however. The world market for satellite navigation and positioning systems could be worth $50bn within seven years, Mr Kinnock said. *Charles Batchelor, Berlin*

■ SPANISH AIRLINES

Tariff probe nearing end

Spain's economy ministry said yesterday that its competition commission would decide in the next few weeks whether in pass on in the competition court the case of three Spanish airlines under investigation for collusion on tariffs.

"Next week the three companies are due in present their position. Then the commission will decide whether there is evidence that merits presenting a case to the court," a ministry spokesman said. Spain's flagship airline, Iberia, denies allegations that it colluded with its domestic competitors simultaneously to raise prices last April.

Spanish newspapers said yesterday that a government agency had determined that the country's three main airlines, Iberia, Spanair and Air Europa, had agreed to raise prices at the same time in violation of anti-competition practices.

Iberia said: "There was no concerted action on prices. Iberia sets its prices independently." *Reuters, Madrid*

■ SWEDISH ALCOHOL MONOPOLY

Court to rule on challenge

The European Court of Justice will rule tomorrow on a case which could force Sweden to surrender its retailing monopoly on wine and spirits.

The court in Luxembourg will decide on a challenge by a Swedish small-town grocer against his country's restrictive regime on liquor sales, which has long been in place to discourage excessive drinking. The result will also be important for Finland and Norway. Both countries have similarly strict rules to prevent alcohol abuse and support Sweden's case. *Reuters, Stockholm*

Russian shipyard finds new ways to keep afloat

The Amur plant at Bolshoi Kamen has seen domestic orders dwindle and is banking on civilian work for its survival, writes John Thornhill

Imagine being the head of a prestigious military plant who sees his domestic market collapse overnight, who has no links with the outside world nor any inkling how a capitalist economy works, and yet ramains responsible for 20,000 workers in a far-flung Russian town.

Such was the fate that befell Pavel Bely, the general director of the Amur Shipbuilding Plant, when the government cancelled all orders for nuclear submarines in 1992 and refused to pay for those that had just been delivered.

Yet, five years later, as the jovial, thickset Mr Bely strides around the sprawling shipyards at Bolshoi Kamen (Big Rock), near Vladivostok, he recounts an inspirational recovery story. His company has salvaged both its self-respect and its livelihood by winning new oil equipment orders in one of the most successful defence conversion projects in the former Soviet Union.

Once the pride of Russia's far eastern military-industrial complex, the Amur plant has just earned $35m by building e huge steel platform, measuring 111 metres square, for a foreign oil consortium. "Even by international standards, this is a fine achievement for Russian industry," beams Mr Bely, sporting a Tabasco sauce tie, bought on a recent trip to consult US defence conversion experts at the Pentagon.

The Amur shipbuilding plant was founded in Komsomolsk-on-Amur in 1932 and churned out 270 vessels for the Soviet Union'a mighty Pacific fleet, latterly specialising in nuclear and diesel submarines. But Mr Bsly saye it hecame clear a decade ago that the plant would have to seek more civilian work as defence orders dwindled.

The plant, however, faced a big obstacle in turning itself into e cost-efficient civilian shipbuilding yard: its inland location. Such was the Soviet Union's fear of e Japanese invasion that the plant was built 560km eway from the sea.

"In 1991 we had about 20,000 workers in the yard hut we understood that the production of civilian vessels could not provide enough johs for our workers," Mr Bely explains. "So we started looking for business with offshore oil developments."

Fortunately, e group of foreign energy companies was growing increasingly interested in explniting the oil and gas fields off the nearby Sakhalin island. Under the terms of a production agreement signed with the Russian government, the foreign investors had to source 70 per cent of their material locally to help revive the depressed regional economy.

One of these consortia, Sakhalin Energy Investment, decided the best way to start production early would be to bring in a mobile drilling platform, called a Molikpaq, previously deployed in Alaska. But because of the deeper waters off the Sakhalin coast, the consortium needed to build a giant "steel island", known as a spacer, resistant to icebergs, storms, and earthquakes, oo which to place the platform.

More than 1,500 workers from the Amur plant set about the task at the beginning of the year by welding together four steel sections.

Mr Bely concedes it was a struggle for the plant's welders to adapt to new ways of working and meet the project's timetables, which triggered bonus payments. "It was difficult to persuade our workers tbat they should earn only as much as they worked. It was a very difficult process," he says.

But once the welders understood how much they stood to gain by hitting specific targets, Mr Bely says, there was no stopping them. By working overtime, some welders earned up to Rbs15m ($2,558)a month, 15 times the average Russian wage.

The yard hed to buy almost all its 17,000 tonnes of steel abroad because it was not confident that Russian suppliers could deliver on time. But Mr Bely is hopeful be can feed more orders to local companies in future construction projects.

David Loran, the consortium's regional manager, says he was delighted by the end result, which should enable Sakhalin Energy to start production by 1999. "There are a lot of people in the world who believe Russians cannot deliver on this type of project. But they finished within budget and a month ahead of schedule. The quality of the work was outstanding," he says.

Yet in spite of its latest success, the plant's future remains precarious. Mr Bely says he hopes to build as many as five to seven platforms for the first two Sakhalin development projects. But some oil companies are delaying production schedules because of legislative and tax uncertainties. The yard's workforce has shrunk to 10,000 and the company remains heavily in debt.

Mr Bely is scathing of the failure of the Russian government to support industrial enterprises. "Shipbuilding is profitable only in those countries where there is direct government support – such as in Korea, Japan, and Poland," he says. "The Russian government is insolvent and does not pay for whet it orders." But the Amur yard has long ago learned it must fend for itself. It has just set up e marketing department to scour the world for orders.

Pavel Bely, director-general of Amur Shipbuilding, bopes to huild as many as seven platforms for the Sakhalin project

Rebel deputy warns Czechs over budget

By Robert Anderson in Prague

The Czech parliament began discussing the 1998 budget yesterday as an independent deputy warned the government it could no longer rely on his vital support.

The three-party centre-right coalition, which has 100 deputies in the 200-seat lower chamber, relies on the vote of Jozef Wagner, a defector from the opposition Social Democrats.

However, he has given ever more strident warnings be will not support the budget unless be is convinced the government also has a coherent strategy for promoting long-term economic growth.

The government "should explain bow it wants to lift the stagnation and where it wants to go, to show whether it has the vision and courage to ensure more than just its own survival," Mr Wagner declared.

Such are the internal divisions of the coalition led hy Vaclav Klaus, the prime minister, that it may not even be eble to count on all of its 100 votes in the legislature.

The free-merket ODA party beld up agreement on the budget last month because it opposed a rise in cigarette taxes. Several of its deputies insist they will not vote for the budget.

The probability remains, bowever, that the govarnment will be able to pass the Kc536.6bn ($16bn) budget plan, which envisages balancing the books by cutting spending and raising Kc1.2bn from higher cigarette taxes.

This year's budget is forecast hy the government to plunge Kc15bn into the red because of falling tax receipts, along with the impact of July's devastating floods.

Milosevic ally accuses rival of rigging election

By Guy Dinmore in Belgrade

A political crisis in rump Yugoslavia deepened yesterdey, when e close ally of Slobodan Milosevic, the Yugoslav president, refused to accept his defeat in presidential elections held on Sunday.

Momir Bulatovic, the president of Montenegro, which together with Serbia forms the federal etate of Yugoslavia, called on his eupporters to stage daily protests and accused his reformist rival, Milo Djukanovic, Montenegro's prime minister, of achieving victory through fraudulent means. "We cannot let this situation go on for long, without e state of law. It is leading us towards confrontation," Mr Bulatovic was quoted as saying by Serbian state television.

Several thousand people rallied outside the presidential offices to show support for Mr Bulatovic, who appears to be acting with the backing of Belgrade. Mr Djukanovic urged his own heavily armed supporters to stay off the streets. With 99.65 per cent of the ballots counted from Sunday'e second round run-off, the election commission announced on Monday that Mr Djukanovic, the favourite of western governments, had won 174,176 votes and Mr Bulatovic 168,864. Final reeults have not been released.

Mr Bulatovic had led after the first round but fell short of the required 50 per cent majority. He accused Mr Djukanovic and police forces under his control of changing voters' lists before the second round.

"Our very clear victory was turned into defeat by this electoral manipulation," said Mr Bulatovic.

The Organisation for Security and Co-operation in Europe, whicb monitored the elections, said there had been "imperfections and infractions" but that preliminary results reflected the will of the Montenegrin people.

Mr Djukanovic, once a protege of Mr Milosevic, has turned into one of his fiercest critics, accusing him of dragging Montenegro and Serhia towards financial ruin and international isolation. Mr Milosevic has suffered two major electoral setbacks in Serbia over the past month and needed a victory by Mr Bulatovic to shore up his position as federal president. Mr Djukanovic says he will figbt off ettempts to change the federal constitution in favour of Mr Milosevic and has brandished the threat of secession. Serbian state media have whipped up a pro-Bulatovic nationalist fervour, saying Mr Djukanovic had secured victory with tha votes of ethnic Albanians and Moslems.

Diplomats in Belgrade feared a violent confrontation in Montenegro. Mr Djukanovic largely controls the police and the state security apparatus but Mr Bulatovic enjoys the support of the Serhian secret service and can call on nationalists among the Serb minority in Montenegro.

Mr Bulatovic's term of office does not expire until January 5, giving him time to take his appeals to the courts, even to the federal level, which falls under the sway of Mr Milosevic.

NEWS: INTERNATIONAL

The Commonwealth gets down to business

By Michael Holman and David Buchan

A drive to boost the economic role of the Commonwealth gets under way in London today when 300 business leaders and trade and finance ministers begin a conference on ways to encourage trade and investment.

Speakers at the Commonwealth Business Forum, organised by the Financial Times and supported by the British foreign office, include Tony Blair, the British prima minister, John Howard, the Australian premier, and Uganda's President Yoweri Museveni.

The two-day conference, the first of its kind, will help prepare the ground for the biennial Commonwealth heads of government summit which opens in Edinburgh on Friday.

The main theme will be "Trade, investment and development: the road to Commonwealth prosperity".

Robin Cook, the British foreign secretary, said the Forum would deepen the Commonwealth's economic agenda. "It will let the leaders of the private sector identify what further steps businesses themselves reckon are needed to boost trade and increase investment across the Commonwealth...and allow the business leaders a chance to feed their conclusions direct to the Commonwealth leaders."

Far from being "just another executive talk-shop", the forum would forge "a direct link between business and government" and thus "the Commonwealth into a genuine partnership for prosperity".

The 54-nation group accounts for 20 per cent of world trade, and includes 12 of the world's 20 fastest growing economies.

The chances of reaching a consensus on economic issues would once have been unthinkable: "When the Commonwealth leaders last met in Britain in 1977, South Africa was one of the big issues (and) became an increasing impediment to doing any other business," said Mr Cook.

"Now the situation could not be more different – South Africa is a regional leader...not a regional pariah...and a growing number of African countries are finding that good government and a respect for the rule of law brings economic benefits.

Mr Cook urged Commonwealth leaders to back the proposal of Renato Ruggiero, World Trade Organisation director general, for duty-free access for goods of the least developed nations of the world.

This plan was yesterday backed by President Yoweri Museveni of Uganda, who urged European governments and richer Commonwealth countries to open their doors to free trade. "How do they expect to have a free world trade regime if they don't move themselves?" he said.

But he conceded African governments could also do more to improve the investment climate by making their currencies convertible, and easing movement of people, capital and goods as well as speeding up the privatisation process, he said.

Editorial Comment, Page 15

Nigeria threat to gatecrash summit

By Michael Holman

Nigeria threatened to gatecrash the Commonwealth summit in Edinburgh and defy the British government's visa ban, saying it would fly a delegation direct to the Scottish capital and demand a hearing.

The military regime was suspended from membership two years ago following the execution of Ken Saro-wiwa and eight other poltical activists, and Commonwealth leaders are expected to discuss taking further measures.

"Nigeria should not be tried in absentia," said a letter from foreign minister Tom Ikimi to Commonwaalth secretary-general Emeka Anyaoku, a Nigerian.

"We have therefore concluded arrangements in Nigeria for our delegation to fly direct from Abuja straight to Edinburgh non-stop and to arrive not earlier than one hour to the time of commencement of discussions on the agenda item, Nigeria," the letter said. The delegation would then leave.

Commonwealth officials confirmed last night that they had received the letter, and were consulting the British and other Commonwealth governments.

Nigeria is scheduled for discussion at 5pm on Thursday by the eight-member Commonwealth ministerial action group, which has been monitoring events in Nigeria. Nigerian officials had earlier said they did not expect a delegation to be sent to Edinburgh because Nigeria's point of view – that it's suspension must be lifted – had not changed.

Earlier this week Tony Lloyd, the minister responsible for Africa, hinted that the Commonwealth was prepared to impose a tougher package of measures against Nigeria in an effort to speed up a return to democracy. Most observers, however, think, it unlikely that Nigeria will be expelled.

Kazakhstan to stay on track, says bank chief

By Charles Clover in Almaty

The appointment of a new government will not affect Kazakhstan's commitment to macro-economic stabilisation and reforms, said Uraz Dzhandosov, chairman of the central bank yesterday.

With control over the money supply, Mr Dzhandosov is the man many western investors consider the guarantor of low inflation and a stable currency in Kazakhstan, even as cabinets and prime ministers change around him.

Some westerners had expressed uncertainty over the appointment of former oil minister Nurlan Balgimbayev as prime minister 10 days ago. Mr Balgimbayev, while popular with foreign oil companies, was known to be opposed to privatising the oil sector, and is an "unknown quantity", in the words of one banker, in the area of wider macro-economic reforms.

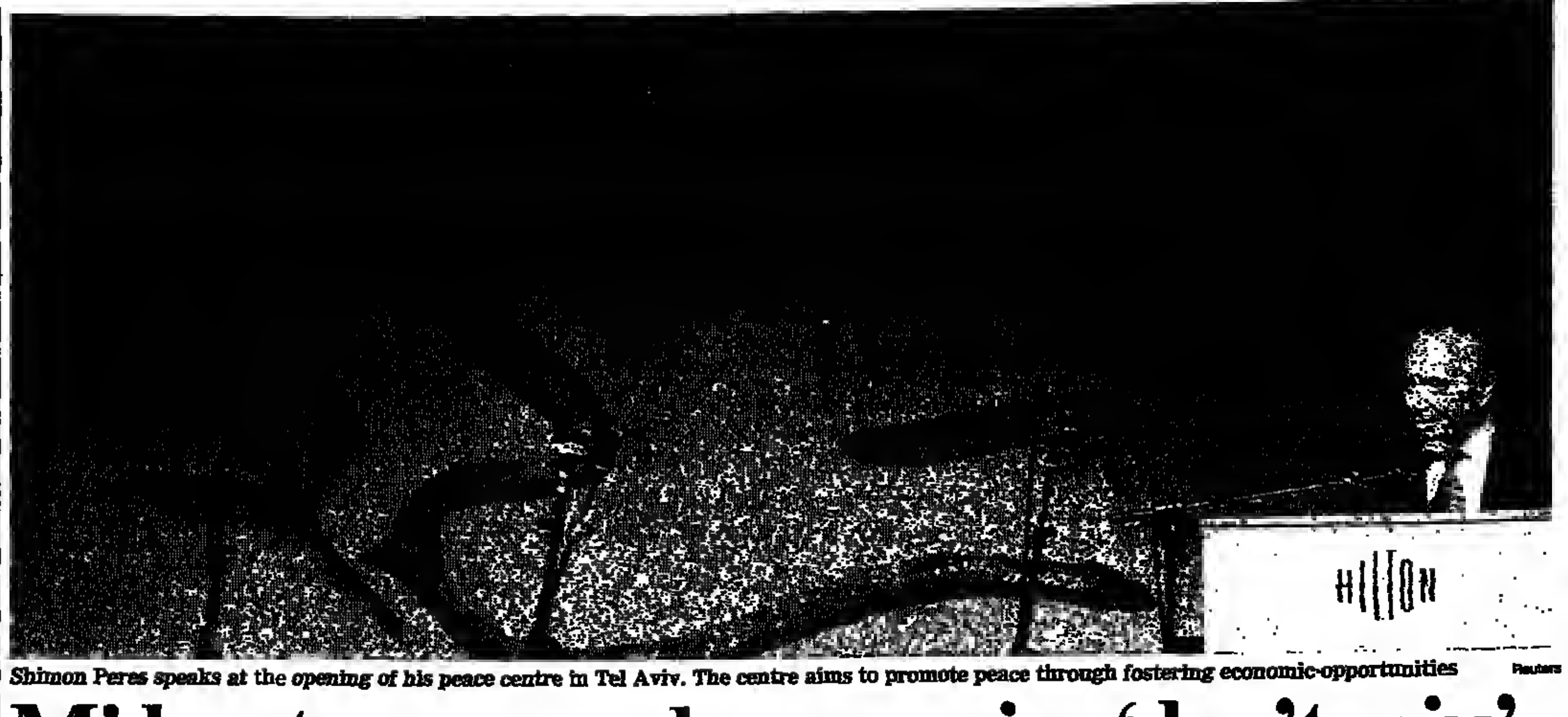
"The National Bank is quite independent in conducting monetary policy," said Mr Dzhandosov. "At least for the end of this year and next year, everything will be on track."

As for privatisation, Mr Dzhandosov gave a powerful argument as to why it would continue unabated: "Privatisation revenues of roughly $500m bave already been counted into next year's budget...this money is very important," he said. This sum is equivalent to 20 per cent of Kazakhstan's gross budget revenues.

The greatest threat to monetary stability in Kazakhstan, meanwhile, is a payment arrears crisie which various government agencies are just starting to untangle. The government has nearly finished paying off $500m in unpaid pensions which have accumulated over the past two years, though Mr Dzhandosov confirmed that new outstanding debts were accumulating in the pension fund.

"To clear all arrears by January 1, which is our goal, a transfer from the budget to the pension fund may be required," he said.

Meanwhile, according to a western economist in Almaty, the Kazakhstan government will next year start paying off a back wage hill of $500m. "We would never contemplate another clearing operation," said Mr Dzhandosov, referring to 1994, when the Kazakh government pressured the National Bank into printing money to pay off billions of dollars of inter-enterprise arrears, which in turn caused hyper-inflation and a heavy currency devaluation.



Shimon Peres speaks at the opening of his peace centre in Tel Aviv. The centre aims to promote peace through fostering economic-opportunities Reuters

Mideast peace and economics 'don't mix'

By Judy Dempsey in Tel Aviv

A top adviser to Benjamin Netanyahn, Israeli prime minister, yesterday said the role of economic forces in the peace process was "overrated and oversold" – provoking a sharp reaction from the International Monetary Fund and the World Bank.

Uzi Arad, Mr Netanayhu's foreign policy adviser, was speaking at the opening of the Peres Centre for Peace, an independent centre established by Shimon Peres, former Labour prime minister. The centre aims to advance Arab-Israeli co-operation by creating projects spanning the economy, education and social development.

Mr Arad's remarks appear to signal a shift in government policy. The government had often argued that promoting economic prosperity was one of the keys to stability, not only in Palestinian-ruled areas but in the Middle East as a whole. Instead, Mr Arad insisted political and military considerations "were paramoumt".

Nevertheless, Stanley Fischer, deputy director of the IMF, insisted that economic co-operation could further the peace process. "When the peace process lags then economic co-operation can sustain it," he said.

Joseph Saba, director of the World Bank in the West Bank and Gaza, made a strong plea for freedom of movement for peoples and goods between Israel and the Palestinian Authority (PA), an implicit criticism of Israel's policies of closing its borders to block trade, travel and movement by Palestinian workers.

Israel has repeatedly resorted to economic eanctions to put pressure on Yassir Arafat, president of the Palestinian Aothority (PA), to crack down on terrorism. Apart from the frequent sealing off of the West Bank and Gaza, which strangles the Palestinian economy, Israel recently started withholding monthly tax receipts owed to the PA in retaliation for the suicide bomb attacks in Jerusalem. Those sanctions were lifted last week following pressure from the IMF, the World Bank and the US.

Mr Arad's statement is surprising in the light of the benefits Israel has gained since the start of the peace process when markets for its goods were opened, leading to a jump in trade.

Between 1992 and 1996, exports of goods and services rose from $20.9bn to $30.3bn, and GDP per head rose an annual average 2.5 per cent. In contrast, Palestinian income per head was 20 per cent lower in 1996 than in 1993.

● Mr Arafat and Yitzhak Mordechai, Israeli defence minister, were last night expected to meet in a bid to speed up agreement on opening an airport in the Gaza Strip.

Opening an airport would breathe life into the Palestinian economy, allowing it to trade with the outside world and reduce its dependence on Israel. It would also represent another symbol of Palestinian statehood.

Operation of the airport has been delayed, with Israel insisting it be involved in eecurity arrangements.

NEWS: WORLD TRADE

Bid to sever WTO link with UN

By Frances Williams in Geneva

World Trade Organisation governments will today be asked to make a long-delayed decision to de-link staff pay and conditions of service from the United Nations system.

The WTO secretariat, backed by independent studies, claims the move will enhance efficiency and fairness at no extra cost.

However, reservations by some leading industrialised countries, including the US, Germany, France and Britain, could again push back the decision beyond the self-imposed deadline of the end of this month.

When governments signed the Uruguay Round trade agreements in Marrakesh in April 1994, they agreed that the future world trade body would be outside the UN system and answerable only to members.

But, nearly three years after the WTO's creation in January 1995, staff pay and conditions remain governed by UN rules as they were in Gatt, the WTO'e forerunner.

The WTO secretariat says these rules create unfair anomalies in the treatment of professional and support staff, especially for pensions, and lack the flexibility that would permit the organisation to institute performance-related pay and regular (as opposed to permanent) contracts which would improve efficiency.

Salaries also fluctuate according to the value of the dollar, even though all the WTO's 500 staff are based in Geneva and are paid in Swiss francs.

WTO staff, who have the wholehearted support of Renato Ruggiero, WTO director-general, and the great majority of WTO members, plan a protest demonstration today to coincide with the general council meeting, and will ask to make a statement to WTO ambassadors.

Gretchen Stanton, chairwoman of the WTO staff association, said yesterday that they would demand a vote on the issue, which had "dragged on for far too long". WTO members normally take decisions by consensus.

A vote is considared unlikely, given the importance of the countries still holding oot against the move. But WTO officials cannot understand why. "All their arguments have been blown out of the water," said one, speculating that the real reason was the reluctance of foreign ministries to let the WTO escape their UN bailiwick.

Concerns about the viability of a separate pension fund have been rebutted by a report commissioned from the UK government actuary which showed not only that the WTO could run an independent pension fund at no extra cost, but that this would better meet the organisation's needs.

Fears that the WTO's withdrawal from tha UN common system would create a "domino" effect are also without foundation, WTO officials argue. Neither the WTO nor Gatt were answerable to the UN and, unlike UN bodies, they were linked to UN conditions of service only on a de facto basis.

A third argument is that a defection by the WTO would hinder broader UN reforms and, more specifically, could upset the delicate compromise between the US administration and Congress over conditions for payment of US arrears in UN contributions. However, WTO staff do not see why they should be held hostage to changes in an organisation they are not part of.

Singapore group takes stake in Aden port

By Robin Allen in London

Singapore's PSA Corporation has thrown its weight behind the redevelopment of Aden port in eouthern Yemen by taking a 49 per cent share worth $49m in Yemen Investment & Development International Limited (Yeminvest) to develop the Aden Container Terminal (ACT), the first of a three-phase $580m programme by Yeminvest to transform Aden into a major trans-shipment hub.

Yemen Holdings, owned by Saudi Arabia's Bin Mahfouz family, retains 51 per cent.

PSA yesterday signed a 20-year agreement with Yeminvest to manage and operste the terminal, which is due to be completed in March 1999. The value of the agreement at PSA is understood to be on a cost-plus basis, with an additional fee for marketing the terminal.

The $250m-$280m first phase includes dredging the harbour channels to 16m and a 690-metre wide turning area; building six quays and a new trans-shipment terminal on Aden's onrth shore, plus ancillary works such as roads, a standby power plant, cranes and other terminal equipment.

The Dutch Royal Boskalis Westminster Gronp completed the first stage of the dredging last July. South Korea's Hyundai has started work on its $150m sub-contract from PSA to build the terminal and quays following the main contract award to PSA last June.

According to Mr Matthias Moser, leader of the project finance team at financial advisers Deutsche Morgan Grenfell, Yeminvest needs to finance another $150m of debt for the first stage. Some $35m is to be provided by commercial banks, which would be covered by the Moltilateral Investment Guarantee Agency, a sister organisation of the World Bank.

A further $65m would come from commercial banks with political risk provided directly by the World Bank under its partial risk guarantee programme. The balance would come from the International Finance Corporation, the World Bank's private sector affiliate.

However, "one of the tremendous difficulties facing the entire programme is the multiplicity of Yemeni state entities competing for a say in the project," Mr Moser said. The World Bank is understood to have allocated $20m simply to help the Yemen government establish one single anthority with which Yeminvest can deal.

Elton John singing Candle in the Wind which yesterday became the biggest selling single in the world AP

Spice Girls fail to pep up music sales

By Alice Rawsthorn

Despite the popularity of the Spice Girls, Hanson and Puff Daddy, the global music industry suffered a fall in sales during the first half of this year due to an increasingly unpredictable market.

Wholesale sales of albums and singles fell 4 per cent in volume and declined by a similar rate in real value terms, compared with the first six months of 1996, according to the International Federation of the Phonographic Industry (IFPI), which represents the world's record companies.

The global market has rallied in the second half, fuelled by strong sales of new albums by Oasis and the Prodigy, and the popularity of Candle In The Wind 1997, Elton John's tribute to Princess Diana.

However, it is not yet clear whether the non-traditional record buyers who flocked into music stores to buy the Elton John tribute also purchased other albums and singles. Record executives are still nervous about trading prospects in the approach to Christmas, the most important sales period of the year.

The sluggish first half follows a flat year for the music industry in 1996, when retail sales stalled at $39.77bn in value terms.

During the opening months of 1997, the industry sustained lower wholesale sales in three of its five biggest markets – the US, UK and France – and suffered static sales in a fourth, Japan. Sales increased in other countries, notably Brazil and Spain, but not by enough to counter tha downturn in larger markets.

The downturn reflects the volatility of a market increasingly dependent on new releases, after a decade in which record companies benefited from consumers buying compact disc versions of favourite vinyl and cassette recordings.

Nic Garnett, chief executive of the IFPI, said music was also suffering from growing competition from the internet and products such as mobile phones and digital toys. "In Japan, for instance, teenage girls are spending more of their time and money on mobile phones, rather than music," he added.

Another difficulty for record companies is the increasingly fickle nature of the market. Many multinational music groups underestimated the appeal of the new rap, hip-hop and dance acts now topping the charts in North America and Europe.

Meanwhile, sales of expensively promoted releases from previously bankable stars such as Aerosmith, En Vogue, kd lang and Paul McCartney have fallen below expectations.

Top 10 music markets

1997 interim sales, %

	Units	Value
[illegible]	[illegible]	[illegible]
Japan	0	3
[illegible]	[illegible]	[illegible]
UK	-7	-6
[illegible]	[illegible]	[illegible]
Brazil	12	9
[illegible]	[illegible]	[illegible]
Spain	10	12
[illegible]	[illegible]	[illegible]
Australia	-15	-10

Source: IFPI

Egypt launches raids on software pirates

By Mark Huband in Cairo

Egyptian police have seized more than 2,000 counterfeit compact discs and CD-Roms in a series of raids on factories producing discs for the country's $18m illegal software industry.

In an unusual deal, the Egyptian government in August agreed to raid software pirates in return for a commitment from Microsoft, the world's leading computer software manufacturer, that it would contract out production of Arabic versions of its software to Egyptian companies.

Microsoft has now licensed one Egyptian company, Media Egypt, to replicate the Arabic versions, which have until now been imported from Germany. Domestically produced software packages such as Windows 95, which retailed at E£450 ($132) as an import, will retail at E£375 when the company starts production in December.

Written warnings to Egyptian companies using illegally copied software have been ignored in 50 per cent of cases, leading to preparations to prosecute high-profile illegal users.

According to the Business Software Alliance, which represents the industry's interests, pirated computer programmes now account for 88 per cent of software sales in Egypt.

"In Egypt, companies in the banking, petroleum and service industries are using pirated software," said Ashok Sharma, the BSA's director for the Middle East, who is now planning legal action against several Egyptian companies ignoring warnings. He said offenders included large companies using hundreds of computers.

The BSA calculates the extent of piracy by subtracting the number of licensed software users from the number of computers produced or imported into the country. Mr Sharma estimates that companies are on average saving $200 per computer by using pirated software.

Microsoft maintains that pricing levels are not a major influence on the scale of piracy.

"There really is no correlation between the price of the software and how high the level of piracy is," said Sharon Baylay, Microsoft's regional business manager for Africa and the Middle East. "The main issue is that people are trying to make money from the customers' lack of knowledge. We haven't dropped our price with regard to the piracy issue." The BSA and Microsoft believe the majority of users are unaware that copying software is illegal.

However, elements of the Microsoft strategy have involved price reductions. Egyptian academic institutions have been provided with software by arrangement with the Ministry of Education, which can be legally copied up to 20 times, amounting to an equivalent 90 per cent price reduction, according to the company. In addition, the Egyptian government recently reduced customs duty on imported software to 5 per cent.

Record US trade gap with China

By Nancy Dunne in Washington

The US trade deficit climbed to \$10.4bn in August, thanks largely to a record trade gap with China only days before Chinese President Jiang Zemin visits Washington.

The overall deficit is the highest in seven months, partly because of a decline in aircraft sales, a modest rise in the cost of crude oil and increased imports of capital goods and electrical supplies. This year the deficit is running at an annual rate of \$114bn, compared to last year's eight-year high of \$111bn.

China leapfrogged Japan as the leading trade deficit nation with the US. The August trade gap with China rose by 9.6 per cent to \$5.2bn, while that with Japan fell by 12.3 per cent to \$4.53bn, the department said.

This is particularly significant with the US-China summit looming and trade e key item on the agenda. Beijing was hoping to placate US sentiment with the dispatch this week of a trade mission – expected to buy about 30 Boeing aircraft and infrastructure eqnipment – but these purchases will have no impact on the trade figures for some time to come.

The overall deficit will do little to reassure Congress that new free trade pects that President Bill Clinton hopes to negotiate will do much to improve the trade figures. The US also accumulated trade deficits with both of its partners in the North American Free Trade Agreement – \$1.6bn with Canada and \$1bn with Mexico. The US deficit with Canada rose by 20.2 per cent to \$1.57bn, while the deficit with Mexico nudged up by 0.5 per cent to \$992m.

The US trade surplus with Central and South America, where the US hopes to negotiate a regional free trade pact, rose from \$466m in July to \$893m in August. The cumulative surplus for the region amounted to \$4.5bn in August compared with \$1.9bn during the same period in 1996.

Most analysts attributed the widening gap with China to a seasonal surge of imports of toys and Christmas decorations. But the climb this year for August is ths steepest yet, said Mr Andrew Szamosszegi of the Washington-based Economic Strategy Institute.

"The largest dollar amount in China's exports to the US has been in the area of electrical equipment and electronics," said Mr Charles McMillion of MGB Information Service, a Washington consultant.

"Everybody has a deficit with China now but other countries' exports are growing better than ours," Mr Szamosszegi seid. It was partly due to the fight in Congress each year over renewing Cbina's Most Fevoured Nation trading status.

Fresh twist in browser wars as Reno seeks to impose fines of \$1m a day

Daggers drawn against Microsoft

The future of Microsoft may rest on a few bracketed words in a 1995 anti-trust settlement, words at the centre of the US Justice Department's renewed charges against the software industry leader.

On Monday, Janet Reno, tbe attorney-generel, announced that the government would seek record fines of \$1m e dey against Microsoft for its alleged violation of the 1995 "consent decree".

Capturing a wave of anti-Microsoft sentiment that is sweeping through the computer industry, wbere the software group's control over software standards is strongly resented, Ms Reno attacked Microsoft's business tactics.

Microsoft, she said, was "unlewfully taking advantage of its Windows monopoly to protect and extend that monopoly and undermine consumer choice".

Specifioally, Microsoft is accused of forcing PC manufacturers that pre-install the widely used Windows 95 operating syetem to also install Microsoft'e Internet Explorer on PCs before they are shipped to customers.

Installing the competing progrem from Netscepe Communications is a fiddly process. Moreover, the Netscape software sells for ebout \$50 while Microsoft does not charge extra for its Internet Explorer.

Not surprisingly Microsoft's share of the browser market is rising fast – up from 30 per cent three months ago to 35 per cent, according to Microsoft's own estimates.

The Justice Department'a complaint would seem to be about the so-called "browser wars" – tha bitter rivalry between Microsoft and Netscape for leadership in internet-access software. Indeed, the cbarges are believed to heve been prompted by a Netscape complaint to anti-trust regulators.

Yet far more is et stake. The new charges go to the beert of Microsoft's long-standing strategy of expanding and improving its Windows operating system.

"A fundamental principle at Microsoft is thet Windows gets better and makes the PC easier to use with each oew version," said Bill Getes, chairman and chief executive. "Today people want to use PCs to access the internet. It would be a great disservice to our customers if Microsoft did not enhance Windows witb internet-related features."

Microsoft chairman Bill Gates: under pressure AP

Declaring that Microsoft would vigorously defend its practice of adding new features to Windows, Bill Neukom, geoeral counsel, said that the 1995 consent decree explicitly allowed Microsoft to do so.

The settlsment stated: "Microsoft ehall not enter into any licensing agreement in which the terms of the agreement are expressly or impliedly conditioned upoo the licensing of eny otber ... product (provided, however, that this provision in and of itself shall not be construed to prohibit Microsoft from developing integrated products)."

The bracketed phrase was bard won in negotiations with the Justice Department, Mr Neukom said.

Now a federal judge will have to decide the precise meaning of the words. Microsoft is contending that its internet browser is an integral part of Windows. The Justice Department views them as separate products.

To the average PC user, Internet Explorer eppears, liks any other applicatioo program, to be a separate product. It carries e different name and has its own "icon" on the computer screen. Yet Internet Explorer can be configured as the "interfece", or opening view of Windows. Moreover, the next version of Windows, due out next year, will fully integrate the two programs.

While the Justice Department's case rests on this narrow issue, it could have far reeching implicetlons for Microsoft, its competitors in tbe software industry and for consumers. If the Justice Department wins its case, consumers may be forced to purchase browsers separetely from PC operating systems. It is difficult to see how this would benefit PC users. However, Microsoft's competitors, in particular Netscape, have a lot to gain. If Microsoft is forced to "unbundle" Windows and its browser, Netscape's ability to compete will be enhanced. But Netscape'e ambitions also go beyond the browser. The company is ettempting to usa its early lead in internet software to create an alternative operating system.

Justice Department officials stressed that they are "not taking sides" in the battle between Microsoft and Netscape.

The issue of "integrated" browsers may not be the end of Microsoft's problems. Joel Klein, head of the Justice Department's anti-trust division said his department was conducting a "wide-ranging investigation to determine whether Microsoft's ections are stifling innovation and consumer choice".

The danger for Microsoft is that consumers – as well as its outspoken industry critics – will turn against the company.

Editorial Comment, Page 15

Louise Kehoe

NEWS DIGEST

Clinton to talk on gas targets

DS President Bill Clinton will today spell out his administration's position on climate change, and almost certainly specify the targets for the curbing of greenhouse gases that Washington will accept.

While Mr Clinton will be refining his position till the last moment, most experts expect he will call for stabilisation of greenhouse gas emissions at 1990 levels by 2010, possibly with two years' leeway either side.

The administration, under huge pressure from domestic lobbyists to avoid committing itself, has also considered more distant target dates – or even none at all.

The president will also spell out a strategy for securing the approval of a deeply reluctant Senate for participation in an international accord on climate change, which may result from the Kyoto conference in December.

The president's position is almost certain to be denounced by the European Union as too unambitious, and at the same to attract strong criticism from US lobbies for going too far. *Bruce Clark, Washington*

■ IMF TARGET

Argentine fiscal deficit down

The Argentine government fulfilled International Monetary Fund targets with a fiscal deficit for the month of September of \$279.1m, bringing this year's accumulated deficit to \$2.84bn.

The deficit is more than \$360m below the IMF's nine-month target and bodes well for an expected country investment upgrade. Argentina is currently rated non-investment, below Ecuador.

Part of the better than expected showings is due to a one-off Brady Bond buy-back, also a step in the right direction, say analysts, towards managing Argentina'e \$10bn annual debt management schedule. The results also calm concerns over heavy fiscal spending ahead of elections on Sunday. *Andrea Campbell, Buenos Aires*

■ IMPORTS SURGE

Canada trade surplus falls

Canada's August trade surplus fell to C\$1.4bn (\$1.01bn), its lowest level since May 1994, as demand for imports continued to outpace growth of exports.

Exports reached C\$25.2bn in August, up 0.4 per cent on July, while imports climbed 1.5 per cent to C\$23.8bn, the government reported yesterday.

Exports and imports both reached record levels in August, but imports grew more quickly as a surge of business investment strengthened demand for foreign industrial goods as well as machinery and equipment.

The trade gap also narrowed with improved consumer confidence, which was reflected by a 0.8 per cent increase in Canada's September composite index, also announced yesterday. The index measures performance in 10 key economic sectors, including manufacturing, retail sales, the housing market and business and personal services. *Scott Morrison, Vancouver*

■ MASSACHUSETTS ANGRY

State drops UBS contract

The Massachusetts state treasurer, Joseph D. Malone, has ended the state's \$120,000-a-year contract with Union Bank of Switzerland, which has been accused of shredding Holocaust-related documents.

Massachusetts has paid UBS about \$120,000 a year since 1992 for a line of credit for its short-term borrowing. In a letter to the bank, Mr Malone said: "Your bank's callous and unsympathetic actions have victimised again the families and survivors of the world's cruellest crime against humanity."

The treasurers of California and New York City also have taken actions against the Swiss bank.

Union Bank of Switzerland's office in New York City said the shredding was an isolated act of one employee, who has been fired.

The State Department believes Swiss banks and the Swiss government have responded well to diplomatic efforts, publishing the names on dormant accounts and contributing more than \$70m to a fund for victims of the Holocaust. It has asked California to lift its moratorium on investments with Swiss institutions. *AP, Boston*

NEWS: ASIA-PACIFIC

Cut in rates accompanies India reforms

By Krishna Guha in Bombay

India's central bank yesterday cut interest rates by one percentage point and announced wide-reaching financial reforms in an effort to boost the country's flagging economy.

These include deregulation of interest rates, reform of the debt market and a big increase in the amount Indian banks can borrow on the international market.

Analysts said the reforms were "positive" – in line with India's tradition of gradual reform rather than "big-bang deregulation".

"The credit policy is better than we thought it would be," said Sankar Dey, chief executive of Pergrine Securities. "I do not see what more the RBI can do."

Unveiling India's "busy season" credit policy, Chakravarti Rangarajan, governor of the Reserve Bank of India, said the economy was in "satisfactory" shape – in spite of "sluggish" industrial production and "concern" about exports.

He said foreign exchange reserves had risen by \$3.7bn since March, fuelled by strong capital inflows. He said the economy would rebound in the second half – assisted by reforms which would "expand the lendable resources of banks and reduce the cost of funds." He said the measures were also "steps towards" full currency convertibility.

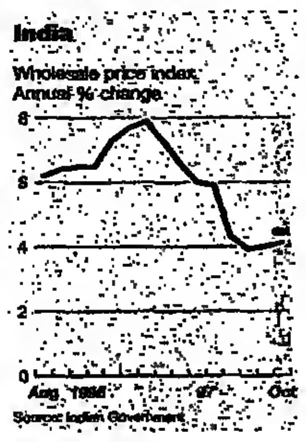
The RBI yesterday announced a two percentage point cut in the cash reserve ratio – the proportion of funds which must be deposited with the central bank – injecting Rs96bn (\$2.6bn) into the banking system. It will pay an extra Rs3.3bn in higher interest on the remaining cash reserve.

From today, India's banks will be free to set interest rates on term deposits with a maturity of 30 days or more. They will be allowed to borrow or invest up to 15 per cent of their tier one capital on the international money markets. Mr Dey said deregulating term deposit rates was a "big move. You can't deregulate lending while you subject deposits to a whole series of controls."

The RBI also scrapped restrictions on the amount a bank can invest in a single infrastructure project and allowed banks to provide bridging loans for the first time. General purpose foreign investment funds will now be able to invest in Indian government paper. The RBI announced a new 28-day treasury bill and eased restrictions on banks repurchasing bonds sold to their customers.

The RBI also unveiled a raft of technical measures to help exporters, including cheaper financing of export credits and greater freedom to use hard currency earned overseas. The move is expected to usher in greater competition among India's banks - putting pressure on margins and threatening the profitability of banks with big overheads.

Indian banks are notoriously reluctant to lend to small and medium-size companies. Mr Rangarajan said banks were already investing in corporate debt. But he said the RBI would ensure the "availability of credit" by instructing banks to set out clear lending criteria.



Japan's economic package fails to excite

By Paul Abrahams in Tokyo

The days leading up to the latest packsge aimed at rekindling Japan's economy were full of sound and fury. Politicians from the ruling Liberal Democratic party competed and contradicted each other publicly on their ideas to kick-start the economy. But when the new policies were announced yesterday, they appeared to signify very little at all.

The disappointment was palpable: the stock market plunged, while the bond market, which had been spooked in recent days by the possibility of a fiscal loosening aimed at stimulating the economy, recovered lost ground.

"Expectations of what the package would deliver were so low that it was quite an achievement on the part of the LDP to disappoint the market," said Richard Jerram, senior economist at ING Barings in Tokyo.

The main criticism was the lack of detail. The LDP said it would attempt to boost the property market by freezing or abolishing land holdings tax and introducing measures making it easier to securitise real estate loans. It would also try to belp business by trying to cut corporate tax. But there was no indication of the timing of the changes, their scale, or whether they could actually be achieved.

"There were no numbers. You just had a set of proposals," said Michael Hartnett, senior economist at Merrill Lynch in Jspan. "It was astonishingly short on specifics," agreed Robert Feldman, chief economist at Salomon Brothers in Tokyo. "There was simply nothing you could put a number on."

The lack of detail reflected the unfinished struggle between parts of the LDP which want to deregulate – and reduce taxes – and the powerful Ministry of Finance which wants to maintain its tax revenues. The politicians and the bureancrats failed to reach a compromise.

The second main concern was the lack of coherency within the proposals. "There appeared to be no clear fiscal philosophy," said Robert Feldman, chief economist at Salomon Brothers in Tokyo. "The administration is committed to reducing the role of the state and maintaining fiscal austerity.

"But at the same time there appears to be s special fund for small struggling businesses, accelerated public spending, support for the agricultural sector, and early wage hikes for public sector workers." Such elements underlined the continuing importance of micro-political influences on policy.

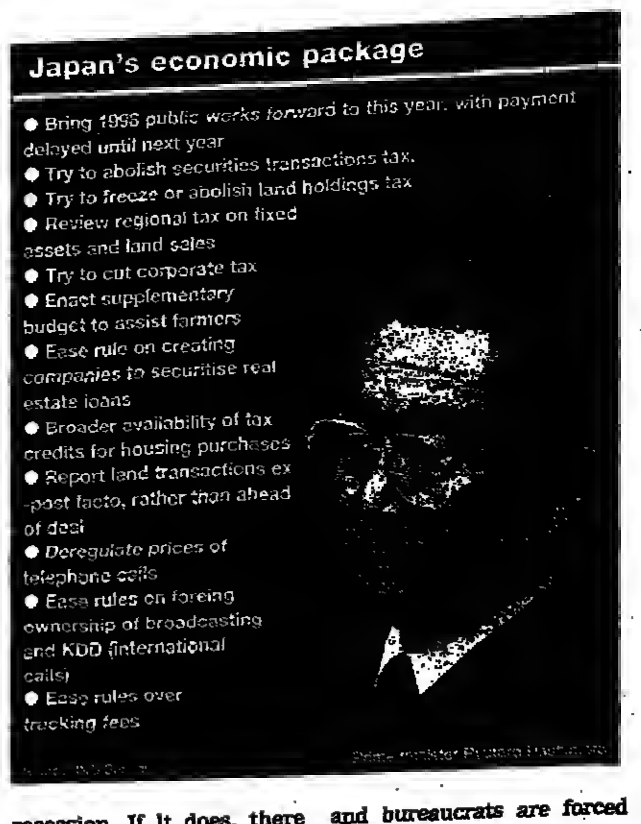
Upper chamber elections are due in July. Measures to support the agricultural economy should bolster the LDP's political snpport; accelerated pnblic works programmes should help the construction sector, which is one of the LDP's main financial benefactors; and early public sector pay increases shonld keep the LDP's socialist allies reasonably content within the government coalition, explained Mr Feldman.

The question is whether the politicians and bureaucrats can fashion s meaningful compromise package in time to make a difference to the economy this financial year. The timetable is short. The proposals must first go to the LDP's coalition partners, then ratified by the Diet before December 12 when the latest session closes.

Mr Hashimoto must come up with something to show President Bill Clinton at the Apec summit in Vancouver which starts on November 24. The Japanese government must be seen to be doing something to boost domestic demand and reduce the country's ballooning trade surplus with the US.

Probably, the government's opportunity to rescue the economy this financial year is past. Japan's leaders must now wait to see if the stalled economy drifts in recession. If it does, there might be enough of a sense of crisis that the politicians and bureaucrats are forced to act.

Editorial Comment, Page 15



Bearish sentiment in the territory's stock market is compounded by regional devaluations

Asian clouds drift nearer HK safe-haven

Hong Kong's post-handover stock market peaks now seem a distant memory amid some sharp falls and anxiety about the impact of regional currency crises.

Fears of higher interest rates and the costs of the territory's currency peg have pushed the Hang Seng index down 9 per cent this week. Its close yesterday was more than 25 per cent below its August best. London dealers said the volume of trading yesterday in the Hong Kong dollar was the highest all year.

The HK dollar, which has been pegged to the US dollar at a rate of HK\$7.80 since 1983, suffered jitters, testing a support level of HK\$7.75. Yesterday one-year money market rates jumped from 9 per cent to 10.75 per cent.

Economists cite broader concerns about Hong Kong's economic prospects and its safe-haven status.

"We have revised down our growth forecast to below 5 per cent from 5.8 per cent for 1998, reflecting our less optimistic view," says Dong Tao, senior economist at Schroders.

He cites factors ranging from concern over interest rates to a downturn in retail and tourism, which is vulnerable to devaluations across south-east Asia. With the economy dominated by property and banking, the rise in money market interest rates is now seen affecting corporate earnings and growth.

"There is increasing pressure for banks to raise prime rates and this is adding to concerns about the property sector," said Archie Hart, director of equities at BZW (Asia). "The market is reacting to a rapidly increasing risk of earnings being hit quite badly."

Bearisb sentiment has been compounded by the impact of devaluations elsewhere in the region and the costs of maintaining the peg to the US dollar, the linchpin of the financial system.

"No one seriously thinks the peg is about to go," says the managing director of one investment bank, citing political commitment in Hong Kong and Beijing, and the robust currency board system. "But defending the link, in terms of higher interest rates, is costly for the market."

Despite the sharp market falls, the Hang Seng's 8 per cent decline since January is dwarfed by the falls from Thailand to Indonesia. But the longer the upheaval persists, the more the territory's fate is affected by its neighbours' troubles.

"There is no doubt Hong Kong's fundamentals are much more robust than elsewhere in Asia," says the managing director of one investment hank. "Bnt international investors have lost confidence in Asia."

This was underlined by this week's decision by Barton Biggs, a managing director of Morgan Stanley, to rednce his portfolio weighting for developed markets in Asia, including Hong Kong, from 2 per cent to zero.

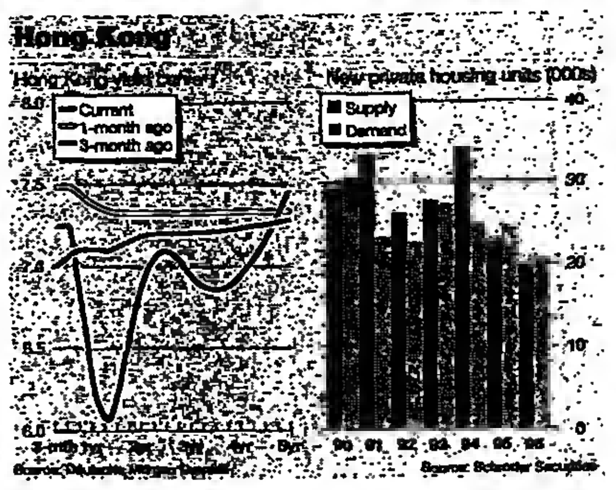
Hong Kong's government has played down the impact of the regional npheaval, arguing that with more than 80 per cent of GDP now coming from services, competitive devaluations in regional manufacturing economies will bave limited impact. But it admits to concerns in the tourist sector.

Tung Cbee-bwa, Hong Kong's leader, has put priority on increasing the supply of housing, an nrgent task, he argues, if the territory is to maintain its competitiveness and avoid social tensions. He has set his administration a goal of building 85,000 new homes a year from 1999.

It is a bold target. But even if it fails, a net increase conld resnlt. Given the importance of the property sector, the key question is the impact this will have on prices.

Analysts are divided, with Michael Green at Salomon predicting further gains and Dong Tao at Schroders forecasting a 20 per cent fall in mass residential prices. But all are agreed on the stakes involved. "If yon knock the lack of supply prop from the market, there is not much else holding it up," says Archie Hart at BZW.

Currencies, Page 25



Thai cabinet passes decrees

By Ted Bardacke in Bangkok

Thailand's cabinet yesterday gave its final approval to s set of emergency decrees which set up a framework for a restructuring of the country's creaky financial system, bot made little beadway in solving the political stalemate preventing their implementation.

Late last night, Prime Minister Chavalit met leaders of Thailand's politically infln-ential military amid talk of a curfew as demonstrations continned outside Government House.

Army leaders later said they would not carry out any such measures. The government issued a statement pleading for patience and accusing "a third party" of instigating the demonstrations.

The passage of the decrees did little to help support the haht, which fell to record lows both onshore and offshore. In Bangkok, the baht closed at Bt38.67 to the US dollar compared to Bt37.67 on Monday, while offshore it fell to Bt38.70 from Monday's level of Bt37.87.

Traders worried about politics after most cabinet members submitted their resignations and coalition party leaders could not reach agreement on remaking the government.

The decrees, drawn up by experts from the World Bank, amend the Commercial Banking Act and the Finance Business Act to allow the central bank to intervene in institutions more quickly.

They also establish a Financial Restrncturing Authority and an Asset Management Corporation to oversee rehabilitation or liquidation of the country's 58 suspended finance companies. Two other decrees bolster the role of the government-operated depositor and creditor insurance scheme.

UK experts aid Bhutto inquiry

By Jimmy Burns

A team of senior British government legal experts has arrived in Pakistan in search of evidence supporting the seizure of assets allegedly held by Benazir Bbutto, the former prime minister, and ber family in the UK.

UK officials bave told Pakistan that without the evidence they are seeking in Pakistan, they cannot act against bank accounts and properties allegedly held by the Bhnttos. This follows information provided by Pakistani investigators who have been in London.

The decision to send a team of officials from the UK Home Office to Islamabad appears to have lent some credibility to tbe case against the Bhuttos.

Legal provisions in the UK require the Pakistani authorities to provide reliable evidence linking named assets with the proceeds of mooey laundering or drug crimes.

While the Home Office wants to assure itself that it has sufficient legal grounds to proceed through a British court, other British government departments are thought to be urging caution in the handling of the Bhutto case. The Foreign Office in particular is thought to want to avoid being drawn into a diplomatic and political row over an issue which it regards as surrounded by more questions than answers so far.

Mrs Bhutto, who met the Queen on her recent visit to Pakistan, has described her links to alleged drug crimes as "absolutely untrue." Pakistani investigators claimed that more than \$3bn has been siphoned out of the country by the Bhuttos. Swiss police said they had so far identified Sfr20m (\$13.6m) in frozeo bank accounts in Geneva belonging to the Bhuttos in connection with corruption inquiries.

NEWS DIGEST

BJP survives state vote

India's Hindn revivalist Bharatiya Janata party emerged physically bruised but politically unscathed yesterday from a violent confidence vote in the state assembly of Uttar Pradesh, India's most populous state.

The BJP, with only 175 seats in the 425-seat house, clung to power after winning support from a last-minute split in Congress party ranks and backing from independent MPs. It was aided by an opposition walkout after the pre-vote session descended into a mêlée of punches and missiles in the assembly.

The vote in one of India's most politically volatile states was forced after the Bahujan Samaj party, which represents India's lowest caste Dalits, angrily dissolved at the weekend an already fractious seven-month alliance with the higher-caste BJP.

BSP leaders tore up the alliance, claiming the BJP had begun "mistreating" Dalits – once known as "Untouchables" – in the month since it assumed the leadership of the state government, which the two parties had agreed to rotate every six months. BJP hailed its victory – in a vote of 222-0 thanks to the walkout – as a significant political boost, leaving the Congress party to reflect on a setback in the state which it had monopolised in the 1970s and 1980s.

Mark Nicholson, New Delhi

■ ADB REPORT

'Slowdown to run into 1998'

The Asian Development Bank yesterday forecast a sharp slowdown in south-east Asian economies lasting well into 1998 as a result of the regional currency crisis.

"The defining element of today is uncertainty because the crises are still ongoing," said Dilip Das, an economist at the Manila-based bank. He said gross domestic product growth for the region would fall from 7.4 per cent last year to between 4.9 and 5.7 per cent this year, and down to between 4 per cent and 5.5 per cent in 1998. The figures represent a significant climbdown from the ADB's previous projections of 7.3 per cent and 7.5 per cent for 1998.

Mr Das was speaking st a symposium in Manila which is expected to form the basis of the ADB's influential Asian Development Outlook to be published next year.

High interest rates in Thailand, Malaysia, Indonesia and the Philippines, together with postponements in critical infrastructure projects would contribute to the slowdown, he said. This would be most pronounced in Thailand where GDP growth would slump to 1.6 to 1.9 per cent this year.

Justin Marozzi, Manila

■ PHILIPPINE INVESTMENT

Foreign ownership eased

President Fidel Ramos of the Philippines yesterday increased the foreign ownership limit in local investment houses from 40 per cent to 60 per cent in a move to improve the financial sector's competitiveness.

Mr Ramos said the new legislation would provide "more guarantees to foreign investors that they have a free hand in determining where they can best sink their fund for maximum profitability".

News of the liberalisation failed to prevent another bearisb day on the stock market. Its index fell 1.1 per cent, breaking the 2000 points barrier to close at 1993.89.

Investment analysts welcomed the news but said a more serious commitment was necessary to pass the comprehensive tax reform package, which is on the verge of agreement in Congress and would put the country in a sound fiscal position.

Justin Marozzi, Manila

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Ministers to review plan for Liffe development

By Norma Cohen and Samer Iskandar in London

The government has ordered a review of the planned construction of 63,000 sq m of new space for the London International Futures and Options Exchange in the City of London, just two days before the local authority was to consider granting approval.

The availability of the site at Spitalfields owned by the Corporation of London, the municipal authority for the City, was e key factor in persuading Liffe against moving to new premises at Canary Wharf in London's Docklands.

Yesterday, Tower Hamlets, the local authority which contains Spitelfields, expressed its disappointment at the decision. It said the government had had the full planning application since the summer.

The Department of the Environment, Transport and the Regions said an order had been served on Tower Hamlets "to prevent them from making a decision without allowing the government to examine all the proposals". There had been fierce local opposition to the plans and the government wanted to review them because of the size of the project, it added.

The new site is part of a plan by the Spitalfields Development Group, a private body, to develop a mixed-use site consisting of 99,000 sq m of new office space. The City of London Corporation, freeholders of the site, had leased it to SDG.

Liffe said yesterday it was still confident planning consent would be granted and the delay would be minimal.

An official at the exchange said: "The [government's decision] is not unwelcome, as it means that serious consideration will be given to our planning application at a senior government level." A long delay, however, could prompt Liffe to re-examine a rival proposal for a site in Canary Wharf, in the former east London docklands.

The choice of the Spitalfields site in December last year was believed to have been heavily influenced by concessions granted to Liffe by the Corporation of London. These include an undertaking by the corporation to re-acquire the site should Liffe decide not to proceed with the new building at any time before December 31 2001.

Defections by large institutions are gradually eroding the City's standing as London's financial hub.

Last year Citibank, the US bank, chose to move its heedquarters to Canary Wharf.

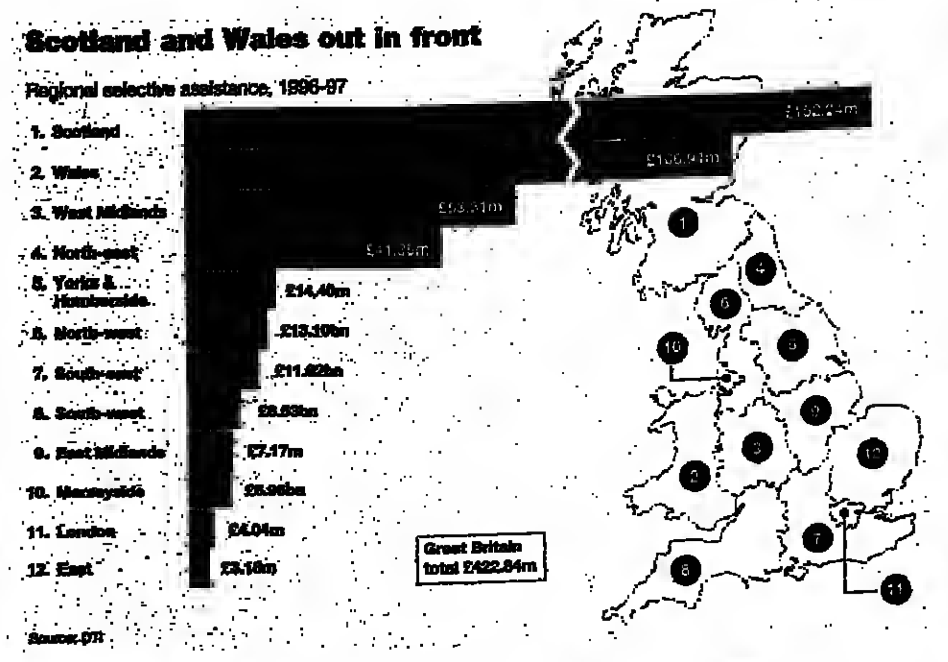
Earlier this year it was followed by BZW, the investment bank recently put up for sale by Barclays Bank.

Existing tenants at Canary Wharf also include Morgan Stanley and Credit Suisse First Boston, both of which have been expanding their office space in the area.

Super-SIB, the beefed-up regulator of the UK financial markets, also decided in recent weeks to establish its headquarters in the redeveloped docklands.

A code is planned to stop areas outbidding each other in the battle to attract foreign projects

Refereeing the regions in fight for investment



It sounds grand. A "concordat" to prevent job poaching between Scotland, Wales and England is being prepared by Margaret Beckett, the trade and industry secretary. It aims to stop public money being used to finance wasteful competition for investment.

Behind it lies not just a serious political argument, but an issue which goes to the heart of devolution for Scotland and Wales and threatens to provide e controversial backdrop to the planned creation of nine regional development agencies for England.

In bilateral discussions, Ron Davies, the Welsh secretary, has flatly refused to countenance any veto for the Department of Trade and Industry over packages negotiated by the Welsh Development Agency. He is prepared to consider a weaker protocol.

Donald Dewar, the Scottish secretary, has given a similar message. "A veto is not realistic," says a Scottish Office insider. "A sensible accommodation should be possible which will meet legitimate interests, rather than a big stick."

It is questionable whether e voluntary agreement would satisfy those in the English regions demanding change. "I doubt it," says Sir George Russell, chairman of the Newcastle-based Northern Development Company. "There is no way other than having a centralised system."

There was anger in the north-east last autumn when the WDA produced a £247m ($400m) package to persuade Koree's LG to locate a £1.7bn electronics plant in Newport, south Wales. At the same time Locate in Scotland produced a substantial sum – some analysts say £147m – for Hyundai to set up a microchip plant in Fife.

Controversy deepened last month when north-east officials claimed a 1,000-joh investment planned for Northumberland by Acer, the Taiwanese compnter company, had been thrown into the melting pot by a Welsh bid which virtually doubled overnight. Welsh officials insist they have stuck to both European Union and British aid rules.

The issue has been bubbling for 20 years since Scotland and Wales acquired their own development agencies, but competition for big projects has intensified. English regions say not only do Scotland and Wales get most regional selective assistance – 60 per cent of the £423m committed in 1996-97 – but also boost their packages with spending on property, training, roads and even water supplies. In addition, there are allegations of attempts to poach companies already established in England.

Sir George Russell and Sir Colin Marshall, chairman of London First Centre, the capital's inward investment body, have called for the DTI's Invest in Britain Bureau to be the sole clearing house for bids for projects from overseas. Sir George told the NDC's annual meeting last month: "We can no longer tolerate a situation where we are continnously disadvantaged against Scotland and Wales. The north still has the highest rate of unemployment in Britain, whilst Scotland and Wales have rates at or near the national average."

Tony Blair, the prime minister, has asked Mrs Beckett to sort the situation out. According to Whitehall officials, any agreement must do two things: stop gazumping once an investor has expressed a preference for a location; and limit the total packages, including indirect costs.

The Scottish Office accepts the need to clarify the rules. It would even accept a more proactive role by the IBB, provided it was under existing rules. But it believes Scotland must go into devolution with as much power to attract investment as now.

Both Locate in Scotland and the WDA believe their success is based on long experience of dealing with investors. Ministers also say their main competition is overseas, particularly Ireland, and that if their hands were tied the result would be not more projects for England, bnt investments lost to the UK.

A decision on the concordat is expected in a month. If the issue is not resolved now, say critics of the present set-up, the entry of nine English RDAs trying to flex their muscles in e similar way will result in anarchy.

Brian Groom
James Buxton

Leading pensions seller is rebuked

By Christopher Brown-Humes in London

Prudential, the UK's biggest pensions group, was sharply criticised by the main City of London watchdog yesterday for not clearing up its pensions mis-selling cases fast enough.

The Securities and Investments Board said it was "deeply concerned" by the "serious shortcomings" in the Prudential'e conduct of its pensions review.

The rebuke follows the company's failure to meet e deadline for resolving its most urgent mis-selling cases by the end of September.

It has nearly 70,000 mis-selling cases overall – more than any other provider – but has only resolved 22,500.

The public reprimand is a serious embarrassment to the group, not least because its previous chief executive, Mick Newmarch, once claimed it had hardly any exposure to the scandal.

The Prudential is the only pensions provider regulated by SIB rather than the Personal Investment Authority. SIB cannot fine companies but it can criticise them publicly in a calculated assault on their reputations. The last time it did this was in 1994 when it criticised Barclays Life.

SIB said the Prudential "has failed... to exercise the requisite due skill, care and diligence required of it in its conduct of the pensions review... it has placed too much faith in its line managers and their reassurances."

Prudential said it "very much regretted" what had happened.

But it had taken action, including bringing in management consultants, extra staff, and a nsw project leader to speed things up. It insisted it was making every effort to meet its final deadline of March 31 1998. The company has made a £450m ($729m) provision to cover compensation.

More than half a million people may have been mis-sold a personal pension in the late 1980s and early 1990s, many being wrongly advised to leave generous occupational schemes. Some industry analysts fear the scandal could cost up to £8bn.

'Bonding' effort by party of opposites

By Liam Halligan in Eastbourne

A family holiday may not be everyone's idee of perfect harmony, but William Hague, the opposition Conservative party leader, yesterday took off his tie and rolled up his sleeves for what he hopes will be the two-day seaside break that re-unites his party.

The trouble was that even the act of taking off his tie caused consternation among the Conservative MPs gathered for the "bonding" session In the south coast resort of Eastbourne, evoking memories of bitter leadership battles and a thumping election defeat. One MP noted that the group was split between those wearing jackets and ties and those who were wearing jumpers.

Mr Hague soon asserted himself, creating a decidedly informal atmosphere among colleagues assembled for his opening speech. "You are all aware," he told them, "that for some in the media, the very idea of Conservetive MPs spending two days together is a novelty."

Beyond the jokes though, Mr Hague ensured that yesterday and today his parliamentary peers are imbued with serious messages.

Developing the "tolerance" theme of the recent party conference in the north-west England seaside town of Blackpool, he said: "I want us to listen to people from all walks of life, teachers, young people and our ethnic minorities... people to whom we have traditionally not listened enough."

Dismissing the government as "without principle or conscience", be told his charges to "pounce on Labour's every mistake" in the House of Commons.

Both days combine formal lectures – on, among other things, social and economic change and the art of opposition – with smaller group sessions on issues such as media handling and image projection.

But many senior party figures have declined the Eastbourne onting. Former prime ministers John Major and Sir Edward Heath were not present, and Nicholas Soamas, former armed forces minister, refused to attend "on principle".

Employers' group survey highlights interest rate dilemma as exporters report squeeze

Plea to clarify policy on single currency

By Robert Chote
and Robert Taylor

UK manufacturers are seeing export orders slide at their fastest rate since the depths of the last recession, but the Confederstion of British Industry fears skills shortages may yet demand higher interest rates.

The latest quarterly survey of manufacturers by the employers' organisation underlines the dilemma which the Bank of England faces in eetting interest rates. Sterling's strength is punishing exporters and encouraging import penetration, but shortages of skilled workers threaten upward pressure on inflstion.

The CBI accompanied the industrial trends survay with a plea to the government to end the confusion about its policy towards the single European currency.

Adair Turner, CBI director-general, said last night he hoped ths government would not rule out UK participation in 2001 or 2002. He addsd that employsrs accepted that the UK could not join in 1999 or 2000, but wanted the government to accept in principle that it "wished to be part of a successful Emu".

The pound rose again yesterday as expectations of early participation in the single currency faded, further tightening the screw on the export sector. Over the coming four months, mannfacturers expect prices to be more of a constraint on sxports than at any time since the spring of 1981.

CBI economists said that exporters were struggling to stay in the overseas markets they had won by sacrificing profit margins. But the National Institute for Economic and Social Research warned that an expectation that the strength of sterling would not persist "will delay the point at which exporters are forced to face up to the high exchange rate, but not put it off indefinitely".

Sterling rose three pfennigs to DM2.9184, well above the DM2.50 to DM2.60 which the CBI helieves is sustainahle, and the DM2.50 or less at which the institute believes it would be safs for sterling to enter monetary union.

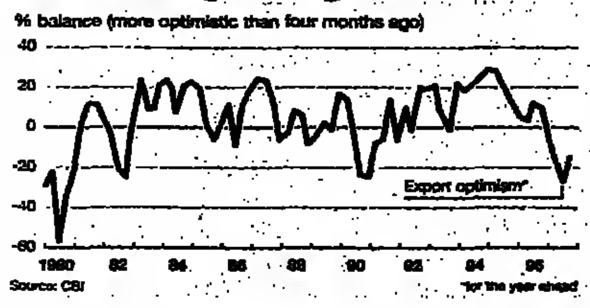
The CBI said yesterdsy that interest rates should remain on hold. "But a rise may prove necessary if inflation in wages takes hold and the domestic economy continues to grow strongly," said Andrew Buxton of the economic committee.

Skills shortages are a greater barrier to increasing fsctory output than st any time for nearly eight years, the survey showed. The proportion of businesses reporting spare capacity also fell to 45 per cent, from 54 per cent in July's survey.

Manufacturers report that output growth has picked up a little in the past four months. Business confidence rose a little, even though domestic demand rose at its slowest this year.

Manufacturing: turning the corner?

% balance (more optimistic than four months ago)



Source: CBI

*for the year ahead

Union chiefs dismayed over Emu uncertainty

By Robert Taylor
in London

Trade union leaders expressed dismay yesterday at the possibility that the government might rule out British participation in European economic and monetary union for the lifetime of the present parliament.

John Monks, general secretary of the Trades Union Congress, said the government would be making a "grave error" that would destroy jobs, discourage inward investment and end the government's bid to play a leadership role in Europe. "I think a prolonged absence from ths Euro will be harmful to British jobs," he said.

Ken Jackson, general secretary of the AEEU engineering union, said he was "devastated" by the possibility of the UK not joining Emn before the next election.

"I know from my talks with companies over recent weeks that this will cost thousands of jobs in the British engineering industry," he said. "It would mean relegating the UK to the fourth division in Europe alongside Greece and Portugal. The prime minister should say we intend to join Emn and become a major player in Europe."

Pster Lilley, Treasnry spokesman for the opposition Conservstivs party, attsmpted to embarrass the Treasury hy asking the governor of the Bank of England to investigate whether reports in the Financial Times and The Times abont changes to the government's Emn approach had created a "false market".

Referring to recent gyrations in share prices and currencies, his letter to Eddie George said: "No one investing in London's financial markets can be confident that the value of their assets is not subject to political manipulation."

In Strasbourg, Theo Waigel, Germany's finance ministsr, implied that even if Britain wanted to join Emn in 1999, it would not be able to because sterling would not have been a member of the European exchange rate mechanism for two years.

UK NEWS DIGEST

Call for tighter rules for BSkyB

Don Cruickshank, the telecommunications regulator, yesterday urged tighter obligations on British Sky Broadcasting, ths satellite television company, to ensure that it sells programmes on fair terms. Mr Cruickshank, director-general of Oftel, called for BSkyB to be barred from using its sports and movie channels to force cahle companies and distrihutors to supply its other channels. Mr Cruickshank, who will step down next spring and has advocated a number of measures to ensure fair competition between BSkyB and cable companies, made his remarks to a European cable conference in London. Although he has no direct responsibility for programming on BSkyB or cable channels, which is regulated by the Independent Television Commission, Mr Cruickshank's call could influence a forthcoming government review of regulation. There have been growing pressures on BSkyB from regulatory bodies. The European Commission has been inquiring into BSkyB's contract to supply programmes for the British Digital Broadcasting service next year. *John Gapper*

■ RAIL SAFETY

Drivers' claim prompts probe

An investigation into safety at one of the UK's busiest train companies began yesterday after some of its drivers said they were in danger of falling asleep at the controls because their shifts were too long. The Health and Safety Executive is looking into allegations that drivers with Connex South Eastern, owned hy French transport group Compagnis Generale des Eaux, are having to work excessive hours after new rotas were introdnced in the summer. More than 600 drivers with the company – which runs trains from the capital to south-east England – now regularly work 10-hour shifts. Coonex rejected claims that the new shift patterns were dangerous. It said drivers' working week had been agreed with Railtrack, owner of the rail system's infrastructure, in the summer in accordance with safety regulations.

■ OIL SPILL

Sea Empress compensation settled

The battle for compensation for the Sea Empress oil spill off the south Wales coast in February last year was settled yesterday. Ths International Oil Pollution Compensation Fund, a United Nations offshoot funded by oil companies to deal with tanker incidents, decided the scheme and the tanker's owners should pay for 100 per cent of losses suffered by local husinesses and residents – up to e total of £50m ($81m). The total amount available to claimants, mostly in tourism and fishing in the area has been increased from 75 per cent of costs. A massive clean-up was staged after ths Sea Empress ran aground off Milford Haven, spilling 70,000 toones of crude oil, killing seahirds, seals and other marine life. A report found 1,400 jobs were lost as a result of the disaster, which cost local tourism and fishing an estimated £30m. *Juliette Jowit*

■ GOVERNMENT

Role of press officers probed

A House of Commons committee is to investigate the constitutional implications of the government's attempt to exert tighter control over civil service press officers. The new public administration committee, chaired by Labour MP Rhodri Morgan, is to consider if recent government requests for press staff to "argue their case" with journalists is consistent with pledged freedom of information legislation. There has also been concern at the departure since May's general election of press chiefs from seven government departments. There was speculation that Jonathan Haslam, once a press secretary to former Conservative prime minister John Major, resigned as bead of information at the education department over a "party political" press release. *Liam Halligan*

■ SOCCER VIOLENCE

Police forces urged to co-operate

Jack Straw, the home secretary, yesterday called for co-operation between European police forces to ensure that hooligans do not wreck next summer's soccer World Cup in France. Mr Straw, who was in Paris to meet his French counterpart John-Pierre Chevenement, wants expertise to he pooled to ensure the scenes before and during England's recent qualifying game in Rome – when police used batons in clashes with fans – are not repeated. He is bringing together police chiefs from all over Europe at a seminar in the UK early next year.

Reskilling urged to tackle crisis in engineering

By Simon Targett
in London

Ministers should establish a system of "mature apprenticeships" for those aged over 25 to tackle the shortfall of 5,000 engineers which threatens to undermine UK manufacturing competitivensss, the Engineering Employers' Federation said yesterday.

The scheme, matching the existing modern apprenticeships for 16 and 17 year olds, should be financed with with cash from redeployed redundancy and social security payments, the fsderation urged.

The call follows a survey of MPs carried out by the Harris polling company, to be published this month. It shows that more than four in five MPs endorse tha idea that funding for over-25s should be available for those wishing to reskill and undertake apprenticeships in engineering, manufacturing or construction.

Of the 166 MPs questioned, more than 90 per cent of Lahour and Liberal Dsmocrats backed the proposal, along with just over 50 per cent of Conservatives.

Ann Bailey, head of education and training at the EEF, said the government should switch social security funds from redundancy to reskilling.

"Social security money could be utilised to fund the over-25s, and instead of making them redundant, employers would be encouraged to reskill them," she said.

Shs added that there was a "markst" for reskilling msture employees. Many employers would offer mature apprenticeships if there was some government funding, she said.

The cost of e four-year modern apprenticeship is at least £26,000 ($42,120), with employers contributing three-quarters of the funding.

But the cost of training mature employees, and hitting the shortfall targets, would be less hecsuse a mature epprenticeship, taking account of previous work experience, would only last two years.

Ms Bailey said the scheme could be modelled on Sweden's *Uaxtkraft-Mal* scheme for reskilling those who would otherwise he msde redundant.

The Swedish scheme is jointly funded hy the government, employers and the European Union.

Ms Bailey said that untapped EU resources could be used to support the scheme. The EU's Adapt fund, whicb totals £8m and whicb contrihutes to the Swedisb scheme, was not fully exploited by the UK under the former Conservative administration.

Internet access · **Alan Cane**

An eye on the mains chance

A gas and electricity group is working on ways to use electric cables instead of phone lines to transmit data into homes

The day when you simply plug your computer into the mains wall socket for *power and information* came a little closer this month.

Norweb Communications, telecommunications arm of the UK gas and electricity group United Utilities, has been experimenting with ways of transmitting information over electrical cabling for the best part of a decade.

Last year a group of its customers were credited with a world first when they were able to make domestic phone calls over the coaxial power lines thet connect their homes to the local substation. That experiment used a variation on the cordless telephone standard CT2; it demonstrated chiefly that while the technology worked, it still had some way to go before it could be offered commercially.

Two weeks ago, bowever, Norweb and its partner Northern Telecom, the Canadian equipment manufacturer, unveiled a technological breakthrough in delivering internet data over power lines which it hopes will be the basis of a commercial service within two years. Market trials serving about 200 homes are expected in the north west of the UK early next year.

The announcement created huge interest, chiefly because it opened the prospect of a low cost and effective alternative to British Telecommunication's "local loop", the final connection between the exchange and the home or office. Ownership of the local loop gives an incumbent operator a snbstantial advantage in warding off new competitors.

For the moment, however, the Norweb and Nortel breakthrough applies only to internet data; the transmission of voice and video will have to wait for further refinements of the technology.

The essence of the breakthrough is a technique for ensuring that the data gets through irrespective of whatever else is happening on the line. Electrical cables are bugely noisy and turbulent, a horrible environment for the complex combinations of electrical pulses which constitute data messages.

Internet data is conveyed to the electricity substation by any one of e variety of means – optical fibre, coaxial cable or twisted copper wires.

The internet signal is injected into the power cable after it leaves the substation and transported into the home by the modulation of a high frequency carrier wave imposed on the much lower mains frequency.

Each substation serves between 150 and 250 homes. The data signal is extracted from the power line by a filtering unit set close to each domestic meter. It is then delivered to a personal computer via conventional coaxial cable.

For the moment, Norweb is using a special printed circuit board or card in the PC to handle the internet data. When the system is produced in volume, the data will be delivered to a stand-alone "black box" capable of being plugged into a PC, or other devices such as television sets, network computers and games consoles.

One possibility would be a flat screen embedded in a kitchen worktop through which recipes could be retrieved from the internet.

According to Norweb and Nortel, the system solves three problems that are hindering the take-up of internet in the home – access to the bome, data transmission rates and capital cost. They argue:

● Access to the internet through the existing electricity supply offers permanent on-line connection for virtually everybody with the potential for lower charges.

● The technology enables data to be transmitted at rates of more than 1m bits of information a second, nearly 10 times faster than ISDN, the fastest technology available for domestic use today.

It has to be pointed out, however, that the the speed of the internet is rarely a function of the access mechanism – it is usually the speed of the host computers that determine how quickly information can be down-loaded. Norweb'e down-loading demonstration used information from an off-line server rather than from the internet itself.

● Investment costs for the electricity companies are low while customers would be expected to pay only £200 or so for the "black box".

There are limitations, however. Mains electricity has a frequency of 50 cycles per second: to transport the amount of data in an internet signal, the carrier wave must have a frequency of at least 1m cycles per second. At this frequency, mains wires will behave like a radio antenna and emit a radio signal capable of interfering with other domestic appliances such as television sets, home computers or music systems. The answer is to keep the power down to a few millivolts.

How does such a delicate signal get through the maelstrom of 240 volt mains power complete with unpredictable "spikes" or surges caused by the switching on and off of domestic appliances?

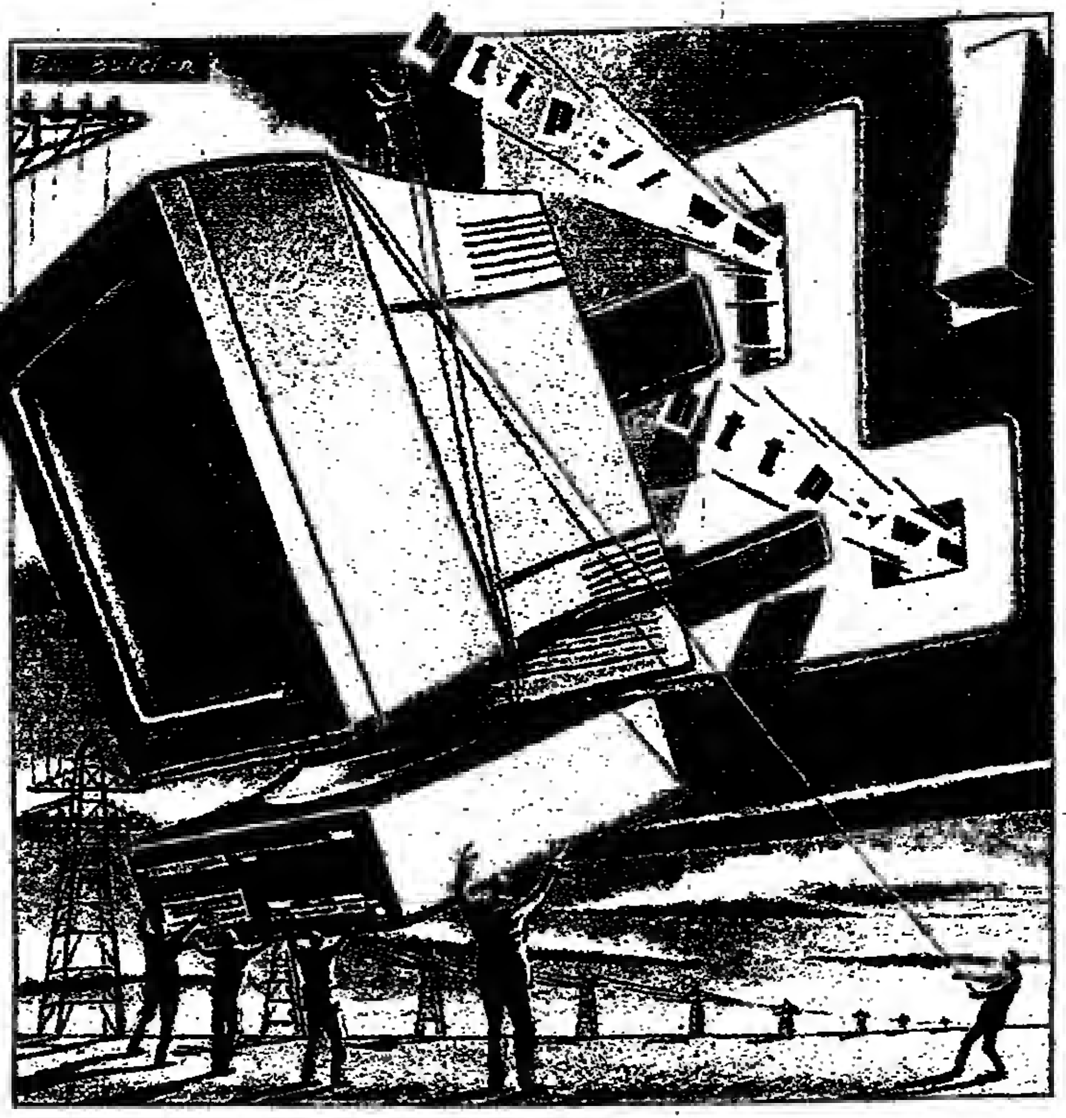
Norweb and Nortel are coy about the exact methods involved but it seems to involve e combination of "spread spectrum" technology – where the data is spread over a number of frequencies to ensure that some part of the signal get through – and retransmission. Internet data is transmitted in "packets", each with its own address. If some are lost during transmission, they can be sent again.

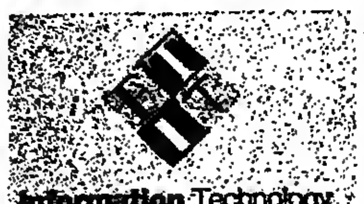
The partners reckon that the combination of speed and a permanent, flat-rate internet connection will make possible the delivery of CD quality audio, video clips, animation and high-speed gaming and video-conferencing services.

They also point out: "The emerging potential of the internet to transmit voice is also expected to be an important driver as this technology reaches the stability and robustness of a managed service".

Norweb and Nortel are not claiming their new technology is a complete answer to internet access. It occupies, they say, the middle ground between speed and cost: fast enough for domestic use, cost effective enough for operators to generate a return on their investment.

It will be marketed chiefly in Europe and the Asia Pacific region. Differences in electrical power distribution mean it will not prove cost effective in the US.





A glimpse of a super-chip

Intel has revealed the *first* details of a four-year-old project to develop a new family of high-end microprocessors that will deliver supercomputer-like performance. But do not expect to see these chips in a desktop system soon.

At the Microprocessor Forum in San Jose, California, Intel, together with its development partner Hewlett-Packard, gave only a teasing glimpse of the advanced and novel technologies that are being used in Merced.

Yet it was enough to show that tha Merced microprocessor will be radically different from anything on the market at present.

The project aims to introduce microprocessors using 64 bits of information, a product family that Intel calls IA-64. This compares with 32 bits for current Intel Pentium microprocessors, or IA-32.

With 64 bits, Intel microprocessors can be used to power mainframe-type computers and run heavy duty operating systems needed by large corporations.

To achieve high speeds, Merced microprocessors *will run software programs* in parallel rather than in a sequential fashion. Intel calls this technology "explicitly parallel instruction computing", or Epic.

The idea is to build small but very fast multiple processors on the same chip, and use powerful software, called compilers, to look at applications and see which parts can be run in parallel. The compiler then "feeds" the software code in parallel to the multiple processors on a Merced chip.

Although Merced can run PC applications, Intel is not about to dump its existing 32-bit Pentium line. "The IA-64 is not a replacement for the IA-32 bit line," says Bob Colwell, the chief microprocessor designer for Intel. "IA-64 is focused at the high end. We don't see any performance slowdown for IA-32, the performance has not topped out and is nowhere near hitting performance walls."

Nathan Brookwood, senior analyst at Dataquest, the market research company, says: "Existing PC software will run faster on the Pentium line than on Merced-type microprocessors. There are about 150m PCs running 32-bit software, Intel cannot turn its back on that kind of installed base."

Intel is going after the large systems market with Merced, Mr Brookwood says, and it represents a new strategy at the company to produce families of microprocessors that are targeted at specific markets. And where Intel goes, PC makers are following, eager to bave the chance to compete in high-end systems markets.

Merced will not be available *until* 1999 and it may take a further three to four years before it could be used as a mainstream desktop PC microprocessor.

"It will be a long time before you can buy a Merced-based PC," says Dean McCarron, microprocessor analyst at US market research firm Mercury Research. "But PC users will be able to benefit from Merced in other ways, servers will be faster, and if you are on a network, you will have faster access to information."

According to Mr. McCarron, there is a huge amount of information about Merced that Intel did not reveal. In the interests of good showmanship, the company left the conference audience wanting more.

Tom Foremski

Watching brief

Faster route to web sites

The world wide web has sometimes been dubbed "the world wide wait" by users frustrated by delays and lengthy download times. However, a new service concept called cache management, pioneered by Mirror Image, a Stockholm-based start-up, aims to ease the problem by changing the way information is handled on the internet.

Mirror Image's system, a "black box" which it is marketing to large internet service providers, is designed to speed access to web sites, particularly those physically located in North America, by storing web content locally on huge Terabyte servers.

The system uses intelligent caching techniques at two levels. When a request for a web page is received by an ISP it is filtered through a sophisticated cache router in the ISP's network. If the web page requested is already stored locally it is forwarded immediately; in the event of a cache "miss" the request passes to a regional Terabyte server where the content of all requests made to each participating ISP is held, providing far greater cache content.

If the web page is not found in either cache, then the request passes to the original source in the usual way. On delivery, that page is copied by the cache router, expanding the cache and benefiting the next person requesting it.

Mirror Image, Sweden: tel 50625500 www.mirror-image.com

Memory in a small space

A solid state memory system with capacity of 86GB per sq cm – several times more than is possible using current hard disks – has been developed by Professor Ted Williams at Keele University in the UK.

Backers of the system say it has applications for computer and processor memory – especially small palmtops where space is at a premium – for credit cards and smartcards, and for high security banknotes. The high data-density substrate used in the process can be put on to virtually any surface.

The system is based on the magneto-optical technology used for reading CD-Roms, but has a different operating approach. A single unit with storage capacity of 86GB of rewritable RAM data, but using the computer's processor, would measure 3cm x 3cm x 1.5cm. Production costs are expected to be less than £30 for a unit of this size.

Commercial aspects of the development are being handled by Mike Downey of Cavendish Management Resources.

CMR, UK: tel (0)171 636 1744, fax (0)171 636 5639, e-mail cmr@cmruk.com

Big capacity floppy disk

The number and types of storage device continue to multiply. The latest attempt to oust the old 3.5-inch floppy as the preferred storage medium comes from Japan's Sony and Fuji Photo Film companies.

They have jointly developed the HiFD, a new 3.5in floppy disk system with a 200Mb storage capacity – double that of Iomega's market-leading Zip drives – making it the largest capacity floppy disk system.

Like the competing LS120 drive, HiFD drives are also backwardly compatible for both reading and writing with current 3.5-in drives. The system will be launched next month.

Sony UK 01932 816417, Fuji Photo 0171 753 0606.

Definition in the picture

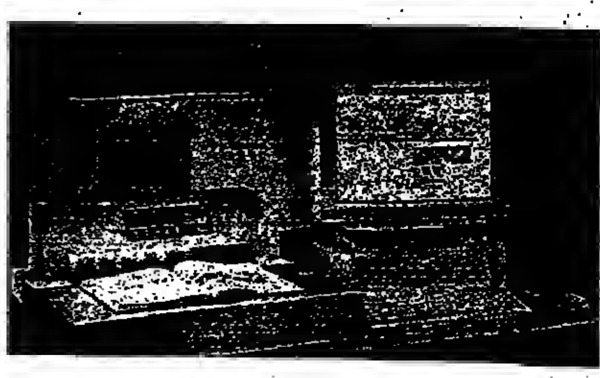
Until recently the quality of image available from a low price digital camera left much to be desired. Postage stamp-size images looked fine on a computer screen, but their imperfections became all too obvious when enlarged or printed.

True photographic quality images required a hefty investment in a digital camera costing from £1,000 upwards. But, just in time for Christmas, digital camera manufacturers are launching higher definition machines.

These machines, such as Epson's PhotoPC 600 camera, boast 1,024x768 pixel images rather than the 640x480 which has been the de facto consumer standard to date.

Epson's new digital camera, which is expected to cost about £600, is much more like a standard 35mm SLR machine and features a digital zoom, built-in colour liquid crystal display and the ability to output photographs directly to a television or monitor enabling it to be used as a presentation tool.

Epson (UK): tel (0)1442 261 144, www.epson.com



Scanning in fine focus

Face-up scanning: a digital scanner designed to provide clear images quickly from books and journals without damaging them, has been launched by Bell & Howell. Previously, even if the spine of the book was pressed down, print near the inside gutter could be blurred or distorted in the imaging process. B&H's £9,500 Filemaster Book Scanner, (above) holds the book face up while a sensor detects the distance to each page, adjusting the focal length to compensate for page curvature. Image processing eliminates distortion in the gutter area.

Bell & Howell, UK: tel (0)1784 251234, fax (0)1784 880413; e-mail enserm@mps.bellhowell.com

Cards with speedy chips

As use of smartcards grows worldwide, increasingly sophisticated applications are placing greater demands on chip performance. This is spurring research into smartcard chips with higher memory capacity and no loss of transaction speed.

One promising technology is Feram (ferroelectric random access memory), which offers speeds 20 times faster than existing Eeprom technology with up to 10 times the memory capacity. It also uses only a fraction of the power of any other memory technology.

Motorola and Matsushita Electronics have announced a joint research and development project to produce the next generation of chip technology for smartcards, based on Feram rather than Eeprom.

Motorola (Françoise Grandjean): tel UK (0)1355 566408, fax (0)1355 242748, web www.mot-sps.com/; Matsushita, Japan (Tatsuo Otsuki), tel 726327094, fax 726327093, e-mail otsuki@erl.mec.mei.co.jp

Compiled by Paul Taylor and Andrew Baxter. Information can be sent via e-mail to Infotech.Page@FT.com

PART SEVEN OF A 12-PART SERIES • PUBLISHED ON WEDNESDAYS AND FRIDAYS

THE GLOBAL COMPANY

Global Alliances **Hand in hand around the world**

When even a rival can be a best friend

Stefan Wagstyl explains how companies can form links to avoid the risk and cost of acquisitions and the slow process of building businesses from scratch

The proposed co-operation agreement between British Airways and American Airlines, which has beld the attention of competition authorities in the US and Europe for more than a year, is only the most dramatic example of the growtb of corporate alliances.

Increasingly, companies are seeing alliances as an alternative to the risk and expense of acquisition and the slow process of growing businesses from scratcb. Alliances come in many forms, ranging from distribution pacts – including those between Coca-Cola, the US soft drinks group, and its bottlers – to equity mergers such as last year's $90bn (£55bn) tie-up in pharmaceuticals between Switzerland's Sandoz and Ciba to form Novartis.

While cross-border direct investment is expanding rapidly, acquisitions and especially alliances are increasing even faster, according to David Ernst, the leader of McKinsey's global alliance practice. He estimates the number of such agreements is rising at 20 per cent a year and will continue to grow, especially in developing countries, where multinational companies seek local partners to belp establish themselves.

Alliances have long been part of the corporate armoury, notably in oil and mining, where companies learnt in the 19th century to share risks by taking stakes in each other's projects. Later, manufacturers such as Coca-Cola and Unilever, the Anglo-Dutch group, struck local distribution and production deals around the world. High-technology companies followed suit, notably Hewlett-Packard, the US electronics and computer group, and Xerox, the US copier company, which established Fuji-Xerox, its pioneering partnership with Japan's Fuji Film, as long ago as 1962.

But in the past 10 years, the race to globalise has given alliance-building fresh impetus. Some companies remain wary of ventures where they are obliged to share control. Percy Barnevik, chairman of ABB, the Swiss-Swedish engineering group, says: "Where possible, we like to have 100 per cent ownership."

But many groups believe tbe gains outweigh the losses. Judy Lewent, chief financial officer at Merck, the US drugs group, says: "The beauty of a joint venture is the elimination of the risk and elimination of an acquisition premium. The downside is the complexity of managing the venture and having to share the pie."

Alliances come in several types:

● Technology sharing. As the costs of developing new technology rise, the incentive increases to bny innovations from other groups, using licensing agreements. But rather than attempt to put a price on a half-developed product, some technology leaders often prefer to pool resources by exchanging innovations with peer companies. Hewlett-Packard has scores of such agreements with companies including International Business Machines of the US, Siemens of Germany, and Japan's Hitachi. Canon, the Japanese optics and electronics group, is also a veteran alliance-builder. Ryuzaburo Kaku, its honorary chairman, says in a recent Harvard Business Review article that such alliances must be struck from a position of strength. A company must have patents to use as "bargaining chips".

> While cross-border direct investment is expanding rapidly, acquisitions and especially alliances are increasing even faster

● Consolidation. Globalisation is forcing companies that used to enjoy protected bome markets to compete with foreign rivals. Long present in manufacturing, these pressures have in the 1990s spread to the utilities and other industries affected by liberalisation.

Many companies bave responded by trying to acquire rivels, notably in Boeing's $13.3bn acquisition of McDonnell-Douglas and other deals in defence and aerospace. But where acquisition is expensive or prone to political opposition, alliances can offer better prospects. The Airbus consortium was formed to circumvent political hostility to full-blown takeovers in European aerospace.

Meanwhile, in the airline industry, where many governments still foster national carriers, there are no fewer than 363 alliances among airlines, including 54 involving equity investments, according to a survey by Airline Business, a trade magazine.

● Ont-sourcing. The increasing use of out-sourcing instead of relying on in-house resources is the wellspring for many alliances. For example, General Electric, the US electrical engineering group, offers utilities long-term maintenance contracts in which its revenues are based on a share of the money the customer saves through improvements in servicing. In computer services, J.P. Morgan, the US bank, has asked Andersen Consulting, the consultancy arm of Arthur Andersen, tha accountants, to run some of its information technology. The companies both heve eccess to any innovations that are generated.

● Market entry. Perhaps the most common form of alliance is between a multinational and a local company acting as an entry point into a new geographical market. The classic example is Coca-Cola which has teamed up with local bottlers in more than 100 countries. Often, western companies have traded technology and/or brand power for local market knowledge, especially in east Asia, where government policy has frequently prevented the establishment of 100 per cent foreign-owned subsidiaries.

Some market entry alliances have been spectacularly successful, notably the 1973 joint venture between Corning, the US glassmaker, and Samsung, the South Korean electronics company, which started with one plant making television tubes in Korea and has grown into a wide-ranging agreement covering much of east Asia.

Market entry alliances are not limited to developing countries. Companies use them to enter new market segments or to launch products. For example, Starbucks, the US coffee retailer, has an agreement with United Airlines to distribute coffee to passengers. Germany's Siemens and Corning have a long-standing joint venture in fibre optics, which was a new prodnct for both when it was launched nearly 20 years ago.

Tensions between partners often make alliances more difficult to manage than acquisitions. Sometimes the aims are too vague – as in the 1991 co-operation pact between Germany's Daimler-Benz and the Mitsubishi grouping in Japan, which fizzled out for lack of specific projects. Sometimes, partners clash over management control, as has happened this year at Maruti, the carmaking joint venture between Japan's Suzuki Motor and the Indian government.

More often, alliances break because the partners' ideas change over time, as happened in 1992 with the acrimonious end to a nine-year-old carmaking joint venture in South Korea between General Motors of the US and Daewoo. GM balked at Daewoo's plans to expand the venture and use it as e platform for international growth.

Where a multinational uses a local company to help enter a market, the local partner frequently outlives its usefulness as the multinational acquires its own knowledge. Several such alliances have come under strain in China and India.

However, an alliance that is rewritten or even terminated is not necessarily a failure. Supporters view flexibility as a key attraction of alliances. Sceptics prefer the certainties of 100 per cent ownership. But the pressure to compete globally on all fronts will force more companies to build partnerships, even with competitors. As Keith Burgess, global managing partner for out-sourcing at Andersen Consulting, says: "Do-it-all-yourself companies will struggle because the demands are becoming too great."

How Hewlett-Packard gets the best out of alliances

Hewlett-Packard, the US electronics group, has technology-sharing agreements with scores of companies around the world. David Logan, the company's corporate development director, sets out HP's alliance-making rules:

- Be specific about what you want. Never go to a company and say 'We get on well. Let's find something we can do together.'
- Start with a narrow alliance and broaden it later.
- Always look for an early success.
- Make sure that the people who will implement the deal are involved in the negotiations.
- Go for the best possible partners – market leaders in their fields, not followers.
- Once you have more than a few alliances, set up systems to ensure alliance-making know-how is shared. HP has a central department looking after alliances and an alliances manual.

In Friday's FT: The small global company

Anthony Lo of Taiwan's Giant bicycle company

Bosal and Norfrost

Own words **Fred Hassan, Pharmacia & Upjohn**

Keep control of revenue generation during a merger

This year Fred Hassan took over as chief executive of Pharmacia & Upjohn, the troubled pharmaceuticals company formed in 1995 by a US-Swedish-Italian merger.

It's always easier to implement domestic mergers because you have geography, culture and accounting systems in common. And there's a sense you can move swiftly and decisively with a lot of confidence.

Acquisitions tend to be easier than mergers because one side is in control. This facilitates faster decision-making: one does not have to make compromises. In mergers you are going to make decisions by committee. You are counting heads to make sure representation is fair and you sometimes don't get the best people in upper management. Ultimately things sort themselves out, but it might take nine months or two years.

One critical element is not to allow the top line growth to break its pattern in any big way. People take their eye off the ball and if the top line goes into a downward spiral then the benefits of operating expense reduction are partially negated by the declines in gross profit from declining sales. Do not lose control of your revenue generation during the merger process!

Managing globally from the centre involves three kinds of important interaction. First, dealing with the corporate functions such as legal, corporate communications, human resources and finance. They are generally located on the same site.

Second, there is global research and marketing. The interface between those two is critical in our business, and they are also at the same site.

Third, the links with regional management, and that's just three or four people. For us it's the heads of America, Europe/Middle East, and the rest of the world. We consider each of these managers to be a member of the corporate team and they come in at least four times a year. We also have frequent interaction through telephones and mail.

And I have just come back from visiting the six major markets in Europe. I spend only 20 per cent of the time on field visits. I believe in empowered regional managers.

Where we can make a big difference centrally is in resource allocation. The two big decisions are which projects in research, and which products on the market do we identify for aggressive global backing.

Recruiting is one of the most important parts of a CEO's job. Especially in a global company, we are dealing with people who have to live in a global culture.

When we're hiring somebody, we look internally but ask ourselves: "Would I hire this person if I was hiring from the outside?" If yes, then we hire. If no: we'll go outside.

Interview by Daniel Green

Case study **Luxottica and Parmalat**

Italy's star acquirers aim to defy a trend

Paul Betts on foreign moves by two very different companies

Luxottica and Parmalat are striking exceptions to the general Italian aversion to international acquisitions. Both have grown rapidly in the past 30 years to become market leaders: Luxottica in spectacle frames; Parmalat in dairy products. And both have made bold foreign moves.

Luxottica is one of the fairytale successes of Italian family business. In 1961, Leonardo Del Vecchio, a modest man who grew up in an orphanage in Milan, began making moulds for plastic eyeglass frames in the small town of Agordo in the Dolomite Alps.

Mr Del Vecchio decided to turn his small venture into a world leader, using vertical integration to transform a highly fragmented industry. He gradually built up a company thet could do everything from design to production to distribution of eyeglasses. He expanded into sunglasses and high-fashion frames for designers such as Armani, Yves St Laurent, Valentino and Bulgari. When the time came to sell the public a minority stake in his company, he bypassed the Milan bourse and went directly to Wall Street.

To strengthen distribution in the US, by far his most importent market, he launcbed a hostile bid for US Shoe, which owns the big spectacle retail chain LensCrafter. Mr Del Vecchio ultimately paid $1.3bn (£800m) for the company.

The acquisition was not universally applauded. There was widespread concern that Luxottica was taking on more than it could chew, and loading its balance sheet with debt. With US Shoe it was not only acquiring LensCrafter, the largest eyewear retailer in the US, but also a footwear business and a women's clothing chain.

Mr Del Vecchio has since disposed of the shoe business. He is restructuring the loss-making clothing operations with a view to selling them off. Integrating Luxottica and LensCrafter is under way: Luxottica products used to account for about 5 per cent of LensCrafter's annual revenues. They now account for 50 per cent.

Luxottica now has a 7.5 per cent share of the $13bn US eyewear market, which accounts for more than 70 per cent of Luxottica's overall sales of L2,373bn (£841,000) last year. By contrast, Italy accounts for only 9.2 per cent of total sales compared with nearly 25 per cent six years ago.

If Luxottica has succeeded in developing a global brand, Parmalat has adopted a regional approach to globalisation. As a Milan investment banker explained: "Simply put, you can't sell milk and fresh products around the world from your home base in the same way as you can sell spectacles. This is why Parmalet's brands are well known in specific markets such as Italy, Brazil and Argentina."

Like Luxottica, Parmalat's success has been its ability to exploit fragmented products markets formerly dominated by small and inefficient companies. It has acquired smaller companies, bringing the new subsidiaries' technology, production, and distribution know-how with a coherent marketing approach and brand.

A focus of these efforts has been fast-growing developing markets. Latin America accounts for more than 40 per cent of sales and more than 50 per cent of profits. Parmalat has also invested in east European markets.

Growth by acquisition and investment in developing countries has fuelled double-digit sales growth that has seen turnover rise from L6bn in 1970 to L1,101bn in 1990 and then to L5,465bn last year.

Parmalat expanded this year with two big acquisitions in Canada. The company says the Canadian takeovers did not imply a departure from its emphasis on developing markets. In the past, Italian family companies have fallen prey to multinationals when they have outgrown their family structures. With their global ambitions, Luxottica and Parmalat are both trying to buck this trend.

Television/Martin Hoyle

Ethics and the art of reporting

To begin with a slight digression into the senior service: it was with a radio piece, his *Letter to Daniel*, that Fergal Keane became a household name in Britain. The BBC's Hong Kong man's musings, touchingly addressed to his sleeping baby boy, on the drunken Irish grandfather the child would never know, reflected on past and future, love and relationships. It touched a national chord as it went out on the air. Travelling salesmen pulled into laybys and sobbed. The chattering classes left sundried tomatoes languishing on the board while the rest of us let our fish fingers burn. The piece has been printed to great success, inspired a flood of approving mail to Radio 4's *Feedback*, and needs only the ultimate accolade of reproduction on tea-towels to become a school set text.

None of which detracts from Keane's excellence as a reporter. So why was I faintly disturbed by last Monday's *Huw Wheldon Memorial Lecture* on BBC2, in which Keane spoke on "The Art of the Reporter"?

Not merely because to my generation the Wheldon *persona*, for all the "glittering heritage" he allegedly left, was that of an opinionated, precious, garrulous windbag, best summed up by an anecdote current in film editing circles a few years ago concerning a discussion programme he chaired on *Hamlet*. One of the distinguished thespians present mentioned the actor Edmund Kean. "I never had the good fortune to see him," murmured Wheldon with the eager-beaver unctuousness he had made his own. "Of course you didn't, grand-daddy," rumbled Orson Welles. "He died 120 years ago." Sharp instructions were issued for this exchange to be edited out.

No, it was the admirable Keane's comments on ethics in "the sacred art of witness" that left some nagging doubts. His principles regarding "forensic accuracy" and "intellectual rigour" are impeccable; his misgivings are understandable about the "Oliver Stone school of action" and the internet's access to a host of conspiracy theories on every item of news and its impact on a generation reared on *The X-Files*. His fears for political or economic pressures distorting freedom of expression (cue clips of headlines on Rupert Murdoch bowing to Chinese protests at the BBC's satellite news service) are already justified. It was the assumption of absolutes that left me worried, the adoption of moral authority which therefore blurs the distinction between news and comment.

There are some cases, illustrated in the programme with clips of courageous, sometimes unbearable, film, where the moral situation is clear-cut: Richard Dimbleby at Belsen, Charles Wheeler piecing together from a hunch a Soviet massacre in Georgia, the excellent and too little known Sue Lloyd-Roberts taking her concealed camera into the heart of Burma's military regime and its disregard of human rights. But Keane's theory that the only governments that bring pressure to bear have something to hide and are therefore *ipso facto* wrong strikes me as idealistic at best. We are all on the side of the angels, he suggests, forgetting that angels, like Lucifer, the bearer of light (good name for a journalist), sometimes fall. In practical terms yesterday's terrorist is today's freedom fighter and tomorrow's elder statesman; and the rightness of his cause is not always clear from the outset.

Coincidentally, on the next morning's *Today*, veteran Charles Wheeler was reminiscing about what might be defined as his spying activities in old cold war days; but he was punctilious about separating fact from comment in his reporter's job. Keane more than once implied that he looked on reporting as an art; therein lies the danger (as he himself acknowledged) not of embroidery so much as the old battle between "committed" and "uncommitted" art – who remembers those modish warcries among film-buffs of the 1960s? That way lies navel gazing.

There was no doubt about the commitment of presenter Simon Sebag-Montefiore in last Wednesday's *Witness* (C4). Subtitled "A Great Hatred" it was a timely (or possibly achingly untimely) revelation of the traditional anti-semitism and pro-fascism of Sinn Fein and the IRA. This sounds a glib generalisation, but the programme was chillingly compelling, with quotations from the hell-fire anti-Jewish sermon that sparked the last pogrom in the British Isles: not in medieval York but Limerick in 1904. Sebag-Montefiore recalled his own recent ancestors (Russian emigrants told by the ship's crew that Limerick was New York) and at times his own anger permeated the report.

History was brought disturbingly up to date: "Our cause is the same", Ribbentrop was assured by Irish republicans in the second world war (the IRA issued a 1939 ultimatum "in the name of God"; the effective blitzing of Belfast was attributable to intelligence from IRA quarters; and some are still too frightened to talk about the Nazi-IRA axis).

Most unnerving of all were the old activists the film dug up. Elizabeth (Irish) and her husband Helmut (German) live comfortably in Dublin where Helmut has apparently suffered a stroke but seemed perky enough to prompt his wife on various points. We saw photographs of Helmut in his Nazi uniform; he had been the party's chief authority on Ireland. There were even plans to put the island under benign German rule. Asked about the atrocities perpetrated by some of their close friends – one had exterminated millions – Elizabeth was unmoved to the point of self-righteousness. No regrets, "nothing to do with me". The 95-year-old Francis Stuart had shared a Berlin studio with Lord Haw-Haw, though his propaganda had been directed to Ireland rather than Britain. "The Jew was always the worm that got into the rose," he opined, adding that he meant it as a compliment. "Je ne regrette rien," he playfully cackled. "Rien de tout." With different political dedication, what a wonderful television find he would be.

It is natural that your enemy's enemy is your friend, and desperate struggles make for unsavoury alliances; but these people endorsed Nazism for what it was, above and beyond any transient political opportunism. They were shown up by the brave Nationalist councillor who had been beaten up more than once for his tolerance towards both sides in the current tensions. He is prepared to die for such principles and is totally without rancour.

This was a fascinating programme, though it left me feeling that Sebag-Montefiore had much more to say about Ireland, possibly not observing Wheelerian strictures about separating comment from reporting.

Opera/William Weaver

Bartoli bowls over the Met

For her Metropolitan Opera debut in 1996, Cecilia Bartoli – already familiar to the New York public through her best-selling discs – chose to appear as Despina in a new production of *Così fan tutte*. A less canny star would have chosen a bigger, starrier role, but Bartoli's decision proved wise. She was a huge hit: her perky, irresistible maid outshone her mistresses. Without having to carry the whole show, she was able to triumph and, at the same time, to test her voice in the vast house. It is not an immense voice, but the Met is an acoustically happy place, and the Bartoli sound comes across, full and warm and captivating.

Last week she made what might be considered her second, real debut, playing the title role in Rossini's *La Cenerentola*. Although this wonderful work has never been given at the Met, older New York operagoers fondly recall a City Opera production in the 1950s with the American mezzo Frances Bible. True, the score employed was incorrect by today's scholarly standards (the Met now uses the critical edition sponsored by the Rossini Foundation of Pesaro, the composer's birthplace); but despite its imperfections, the corrupt edition gave an idea of the scintillating music and opened the world of Rossini-beyond-the-*Barber* to a new and enthusiastic audience.

No audience, however, could have been more enthusiastic than the one that greeted the opening *Cenerentola* at the Met. The crammed house laughed and applauded from the Overture, crisply conducted by James Levine, to the final rondo, where Bartoli displayed the full measure of her pyrotechnical ability. The curtain-calls went on and on (in a house where, as a rule, the spectators grab their coats and are at the front door before the music has died away).

But Bartoli's Angelina – as Cinderella is known in Rossini's libretto – was not just a warbling doll. Jacopo Feretti, the Roman poet who supplied the text in 1817, magically created a three-dimensional character, alternately wistful and wry, tart and assertive, reticent and outspoken. Bartoli was always totally aware of Angelina's complex nature. This was clear as she began her little first-act song about a king, when she uttered a half-sigh before the line about his solitary boredom, making the song apposite to her own lonely state. Her surprise at the return of the prince, which causes her to drop a tray of dishes, was real. It got a laugh, but it was also affecting.

The production by Cesare Lievi (making his Met debut) was set in a vaguely Edwardian ambience, nicely designed by Maurizio Balò and lit by Gigi Saccomandi. It allowed some good visual jokes – the enactment of Don Magnifico's dream about a winged jackass, the positioning of bride and groom at the end atop a layered wedding-cake – but also led to one or two excesses, including a spaghetti fight. More often, Lievi allowed the singers to stand and sing, even during an extended concertato, and during the arias, especially the long number of Alidoro, "Là del ciel", splendidly sung by Michele Pertusi.

Like Pertusi, the other members of the cast were bel canto specialists – Simone Alaimo (Magnifico), Alessandro Corbelli (Dandini) and Ramón Vargas (the Prince). The triumph of goodness – to quote the opera's subtitle – was also the triumph of good music-making.


Affecting: Cecilia Bartoli as Angelina in Rossini's 'La Cenerentola'

Opera/Andrew Clark

Prisoners on the verge of breakdown

Perhaps it's just as well we are not too regularly confronted by Janáček's prison opera. Otherwise we might forget how odd is its music of bursts and shouts, how original its "tangle of expression", how uncompromising its ideal of human dignity. These and a torrent of other astonished impressions came to mind at the Coliseum on Monday, when English National Opera presented the first London staging of *From the House of the Dead* since the pioneering Sadler's Wells account in 1965.

Although the performance was not flawless, it was sufficiently near the mark to rank as one of ENO's best-deserved achievements. It was a triumph for Paul Daniel, who grows in stature with every performance he conducts. And it was a welcome reminder of Tim Albery's exceptional gifts as a crowd-manipulator, remaining true to Janáček's near-abstract design in which the irrational, the arbitrary and the inarticulate all find their place. Yes, one felt on leaving the theatre, this is not just the summit of Janáček's art, combining the compassion of *Katya*, the poetic lyricism of *Vixen* and the grim fantasy of *Makropoulos*, but one of the greatest of all operas.

The setting chosen by Albery and his designer, Stewart Laing, is the least convincing aspect: the costumes, complete with noisy manacles, suggest a late-20th century gulag, with clinical prison walls, a highly improbable radiator in Act 3 and not a whisper of dirt or degradation.

The few touches of realism – a "live" eagle, a handful of office chairs, a water hydrant – bring the prisoners' world too close to our own. Albery fails to find the right metaphor for the Act 2 mimes: although highly entertaining, they are too sophisticated and stagey. And was it really necessary, given the simplicity of the set, to use a drop-curtain between acts?

But such questions pale into insignificance beneath Janáček's world of criminals, misfits and angels, all of whom are graphically brought to life. From start to finish, Albery achieves a near-physical sense of everything being barely under control: individuals on the verge of breakdown, a mob threatening revenge.

He matches the plasticity of the music at every turn, ramming home the vicious volatility of prison life (Petrovich's return from punishment, all bloody-backed, is especially chilling) and bringing each "story" to our attention before letting it slip back into context.

This is not just the summit of Janáček's art, but one of the greatest of all operas

The score, a rapturous dream-world populated by explosions, is in equally confident hands. Daniel's command of the idiom is complete – brilliantly assertive in rhythm and tempo, as eloquent in the brassy bowels of Act 1 as in the gossamer lightness of the Akulina music, and really raising the goose-bumps at the climax to each act.

A cast of 29, excepting chorus, was listed in the programme, and it is no exaggeration to say everyone had a personality – no more so than the narrators, each brandishing his own tics and foibles. Robert Brubaker was the waspish Luka, John Daszak an unexpectedly vulnerable Skuratov, Andrew Shore a Chaucer-esque Shishkov, John Graham-Hall's Shapkin, looking remarkably like Peter Jonas, was the best story-teller of all, rubbing his nose to the music and offering a wicked impersonation of each character in his tale.

It was a mistake to preface this performance with Mark-Anthony Turnage's *Twice Through the Heart*. Janáček offers enough for one evening, and Turnage's "monodrama", premiered at Aldeburgh in June by ENO's contemporary opera studio, is diminished by comparison. One can see the logic: both are set in prison, both employ chamber-instrumental sonorities, both are strong on compassion.

But the similarities are superficial. Turnage's piece is essentially reflective, lacking any sense of dialogue with the world beyond the protagonist's troubled psyche. And it works like emotional blackmail: if you're not "moved" by the protagonist – a woman imprisoned after fatally stabbing her violent husband – you're heartless.

Nothing in Patti Powell's production convinced me that *Twice Through the Heart* requires the stage: the music says everything there is to say. With its lithe rhythmic pulse, achingly beautiful cadences and infinitely flexible invention, the orchestra upstages the words, leaving the soloist – a decidedly under-wrought Susan Bickley – with a thankless task. Far more suggestive to leave it to a concert setting, where Nicholas Kok's superbly-drilled orchestra would get its due and the "drama" would not come across as self-indulgent wallowing.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

OPERA
Het Muziektheater
Tel: 31-20-551 8911
La Traviata: by Verdi. Netherlands Opera revival of a staging by Alfred Kirchner conducted by Ralf Weikert; Oct 22, 25

■ BALTIMORE

EXHIBITIONS
Baltimore Museum of Art
Tel: 1-410-396 6310
A Grand Design: The Art of the Victoria and Albert Museum. First stop of a five-city North American tour of selected objects from the V&A's collection. Consists of 250 works of art ranging from Leonardo da Vinci's notebooks to shoes by Vivienne Westwood; to Jan 18

■ BASLE

EXHIBITIONS
Offentliche Kunstammlung Basel
Tel: 41-61-271 0828
Peter and Samuel Birmann – Artists, Collectors, and Dealers: first major exhibition devoted to Peter Birmann and his son Samuel, the landscape painter; at the Kunstmuseum; to Jan 11

■ BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
Berlin Symphony Orchestra: conducted by Jerzy Semkow in works by Glinka, Dvorák and Prokofiev. With violin soloist Alyssa Park; Oct 23, 24, 25

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Fliegende Holländer: by Wagner. Conducted by Christian Thielemann in a staging by Götz Friedrich; Oct 24, 26
● Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Oct 25

■ BRUSSELS

OPERA
La Monnaie Tel: 32-2-229 1211
La Stellidaura Vendicante: by Francesco Provenzale. New production directed by Philippe Sireuil and conducted by Alessandro de Marchi; Oct 23, 26

■ CHICAGO

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
A Collecting Odyssey: Indian, Himalayan, and Southeast Asian Art from the James and Marilynn Alsdorf Collection. Around 200 works of art, primarily Buddhist and Hindu sculpture spanning nearly 20 centuries; to Oct 26

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
● Idomeneo: by Mozart. Conducted by John Nelson in a staging by John Copley; Oct 22, 25
● Nabucco: by Verdi. New production staged by Elijah Moshinsky and conducted by Bruno Bartoletti. Cast includes Maria Guleghina and Samuel Ramey; Oct 24

■ LONDON

CONCERTS
Barbican Centre
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by André Previn in a programme of works by William Walton. With violin soloist Alexander Barantschik, viola Paul Silverthorne and cellist Tim Hugh; Oct 23

EXHIBITIONS
National Portrait Gallery
● Sir Henry Raeburn (1756-1823): previously seen in Edinburgh, this exhibition of some 60 paintings includes the major portraits belonging to the National Gallery of Scotland as well as loans from abroad; from Oct 24
● The Pursuit of Beauty: Five Centuries of Body Adornment – organised by the Education Department, this chronologically arranged exhibition traces the history of fashion through the art of portraiture, from the Elizabethan period to the present; to Oct 26

OPERA
London Coliseum
Tel: 44-171-632 8300
English National Opera: new production of Janáček's From the House of the Dead, conducted by Paul Daniel and staged by Tim Albery. The programme is completed by Twice Through the Heart, by Mark-Anthony Turnage; Oct 23

Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: The Merry Widow, by Franz Lehár, in a new translation by Jeremy Sams. New production by Graham Vick, with designs by Richard Hudson; Oct 23, 24, 25

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Mozart and Beethoven, and the world premiere of a new work by Donatoni (not 25); Oct 23, 24, 25, 26

■ MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Prague Symphony Orchestra: conducted by Gaetano Delogu in works by Rossini, Brahms and Dvorák. With piano soloist Valéry Afanassiev; Oct 24

DANCE
Bayerische Staatsoper
Tel: 49-89-2185 1920
Bayerische Staatsballett: Swan Lake. Sets and costumes are by John Macfarlane; Oct 23, 25

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Love for Three Oranges: by Prokofiev. Conducted by Roberto Abbado, in a staging by Juri Ljubimow, with designs by David Borowskij; Oct 22, 24

■ NEW YORK

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
Picasso – The Engraver: Selections from the Musée Picasso, Paris. Around 150 engravings, etchings and woodcuts created between 1900 and 1942; to Dec 21

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
● Carmen: by Bizet. Revival of a production by Franco Zeffirelli; Oct 25
● Il Barbiere di Siviglia: by Rossini. Revival of a staging by John Cox; Oct 22, 25
● La Cenerentola: by Rossini. Met Opera premiere. New production conducted by James Levine in a staging by Cesare Lievi, with designs by Maurizio Balò; Oct 24
● Turandot: by Puccini. Revival of a staging by Franco Zeffirelli; Oct 23

New York State Theater
Tel: 1-212-870 5570
Don Pasquale: by Donizetti. New York City Opera. New production, premiered at Glimmerglass, directed by Leon Major and conducted by Lucinda Carver; Oct 23, 25

■ PARIS

CONCERTS
Salle Pleyel Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Iván Fischer in works by Schubert, Mozart and Bartok. With piano soloist Richard Goode; Oct 22

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Paris Opera Ballet: in Swan Lake; Oct 22, 23, 24, 25

EXHIBITIONS
Musée du Louvre
Tel: 33-1-4020 5151
A Mission to Persia 1897-1912: display of pictures, objects and photographs retracing the archaeological expedition led by Jacques de Morgan, paying tribute to his career and the mission's discoveries about the ancient civilizations of Iran; to Jan 5

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
● Aufstieg und Fall der Stadt Mahagonny: by Kurt Weill. Conducted by Jeffrey Tate in a production directed by Graham Vick; Oct 23, 25
● Turandot: by Puccini. New production by Francesca Zambello. Conducted by Fabio Luisi; Oct 24

■ TOKYO

EXHIBITIONS
Bunkamura Museum of Art
Tel: 81-3-3477 9252
Photography in Paris 1905-1997: around 240 works by some 53 photographers, on loan from the Centre Georges Pompidou in Paris; to Oct 26

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC/Super Channel**
07.00: *FT Business Morning*
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Edward Mortimer

Dealing with Iran

The US should establish a constructive relationship with Tehran in the same way it has sought to engage Beijing

Next week's state visit to Washington by President Jiang Zemin of China is a delicate affair.

The Clinton administration, realising China's strategic importance, is desperate to make a success of it. But China is not popular on Capitol Hill for reasons ranging from disgust at its human rights record to fear of its competitive skills.

So Mr Clinton needs Mr Jiang to do something that will go down well on the Hill. He may have found it. If there is one country US legislators love to hate even more than China it is Iran. And it seems Beijing has agreed to stop selling nuclear technology and anti-ship cruise missiles to Tehran.

This prospect has enabled Jamie Rubin, the state department spokesman, to present Mr Clinton's plan to lift the ban on US nuclear technology sales to China as a victory for hard-nosed containment of Iran.

Enthusing about the hoped-for new commitments from China, Mr Rubin last week reminded the world that "a nuclear-armed Iran ... would threaten US interests as well as regional and international security". Therefore, he said, "we have continuously opposed nuclear co-operation by all countries with Iran, even to safeguard the nuclear programmes that are permitted under the International Atomic Energy Association, such as the one with which China has been involved".

Iran is a signatory to the nuclear non-proliferation treaty and thus has to open all its nuclear facilities to international inspection. Admittedly, Iraq was also a signatory before 1990, though since then the International Atomic Energy Association – with strong US support – has tightened its safeguards and inspection procedures. Yet the US opposes co-operation with Tehran, even on its civilian nuclear programme.

The US administration's Iran policy is no more consistent than its China policy. It has just disappointed the sponsors of last year's Iran-Libya Sanctions Act by not imposing immediate sanctions against Total, the French energy company, for its agreement to invest $2bn in developing an Iranian natural gas field. Mr Clinton may be no friend to Iran, but he would like to avoid a trade war with the European Union, which strongly objects to the idea of the US Congress telling European companies where they can or cannot invest.

Early in his first term, the president espoused a policy of "dual containment" aimed at both Iran and Iraq. The declared aims of the policy were to end Iran's opposition to the Arab-Israeli peace process, its support for terrorism, its military build-up, and its programme to develop long-range missiles and weapons of mass destruction. These are laudable enough. But there are no clear benchmarks for measuring the success or failure of any of them.

On the first point, one is tempted to ask: "What peace process?" It seems hard to expect Iran to give public support to something about which Israel itself seems so ambivalent.

On terrorism, Muhammad Khatami, Iran's new president, made a good start by getting rid of Ali Fallahian, the intelligence minister who was named by a Berlin court as directly involved in the murder of four Kurdish opposition figures in 1992. That will not console the victims of suicide bombings in Israel and Saudi Arabia, but any direct link between these and Iran remains unproved.

As for the military build-up, it is unrealistic to expect unilateral disarmament in a country surrounded by heavily armed and unstable neighbours. The US should also note the improvement in Iran's relations with its Arab and Turkish neighbours.

It is in seeking to head off Iran's unconventional warfare programmes that the US can expect most international sympathy. But refusing co-operation, as argued above, may not be the best way to achieve this. Involving Iran in international agreements, while seeking to allay the security concerns that make it feel the need for such weapons, seems a more hopeful approach.

Chibli Mallat, a Lebanese expert on Islamic law and politics, points out that Mr Clinton's original policy on Iran included a fifth objective, now quietly forgotten, to improve human rights and democracy within Iran. This would be worth reviving.

Iran is not a western-style democracy. But it still enjoys far greater pluralism and freedom of expression than most other states in the region. Mr Khatami's election was achieved by massive popular support, against the wishes of the religious establishment.

Iran's human rights record is, of course, dismal. But it is here, more than in foreign policy, that one can expect Mr Khatami to make a difference. His election campaign focused on the need for greater freedom. He has appointed a tough reformist as interior minister. And already the press is much more open in its exposure of official abuses. There must be scope here for international figures such as Mary Robinson, the UN's new human rights commissioner, to work with the government in improving standards.

Finally, US policy in the region has been hamstrung by its tendency to treat Iran and Iraq as equally evil. In fact Iran was the first victim of Saddam Hussein's aggressive policies. Prof Mallat believes Tehran would be interested in developing a common strategy to remove Saddam from power, if convinced that such a policy was genuinely aimed at freeing the Iraqi people rather than extending US control.

If Mr Rubin can sell a "soft-on-China" policy as being hard on Iran, perhaps it would not be beyond him to sell a "new-deal-with-Iran" policy as "let's finally get serious with Saddam".

President Muhammad Khatami: new face of Iran

LETTERS TO THE EDITOR

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Statement on single market calls for simplicity

From Lord Cobbold.

Sir, May I suggest that Gordon Brown drafts his statement to the House of Commons on Emu roughly on the following lines:

"Economic and monetary union is an exciting challenge for Europe. It presents huge opportunities for European industry, in that it will complete the single market, creating a domestic market of potentially 350m people, rising to 500m.

"It will create the largest capital market in the world. The extra supply of savings should lead to a long-term reduction in the cost of capital for British industry. It represents an exciting challenge to the City of London and to Britain's financial services industry.

"Her Majesty's government supports the principal objectives of monetary union and believes that it is in the long-term interests of this country to participate and to adopt the single currency – the euro.

"The government has participated positively at all stages in the technical discussions on the design, implementation and operation of the euro. It recognises that there are important risks associated with the project, both in participating and in standing aside. It is particularly difficult to bring together two such major international trading currencies as the D-Mark and sterling.

"Given the requirement for legislation and the government's commitment to submitting the final decision to a referendum, it is not practically possible for Britain to join the single currency in the first wave of January 1 1999, even though it is likely to qualify for membership under the convergence criteria agreed at Maastricht.

"The government's objectives are: to maintain current economic policies that will ensure that Britain remains eligible to join the union; to work closely with our European partners to ensure a smooth launch of the Euro in 1999 and a successful transition; to explain to the British people the potential benefits to Britain in adopting the single currency; and to work towards joining the union on or before the end of the transition period on January 1 2002."

Simple, really!

Lord Cobbold,
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Rate cycle harmonised but not abolished

From Alison Cottrell.

Sir, Peter Martin is to be congratulated on his wide-ranging article on the sweeping implications of the single currency (Emu's new horizons, October 16). But if he is genuinely confident that "in most European countries interest rates will fall to historically low levels", then I covet his crystal ball.

Certainly, in a credible economic and monetary union, interest rates in the majority of countries should be lower than would otherwise have been the case; and given that the new European Central Bank will have to demonstrate that it is at least as "tough" as the Bundesbank, we can probably assume that its stance will indeed be euro and bond market supportive (which is not necessarily the same thing as appropriate).

Where this leaves interest rates per se is another matter. The European – let alone the global – interest rate cycle will not stop on January 1 1999; and if Emu is up and running to time, it will, in market terms, be at least seven months old by then, with its official start date being important primarily for the unparallelled photo opportunities afforded to egocentric heads of state.

With the approaching millennium giving already recovering European growth an added push in 1998-99; with the US economy slowing, but unlikely to be slow; and with Japan eventually picking itself off the floor and dusting itself down, the global cyclical pressures on inflation and interest rates are unlikely to be downwards.

Yield curves which have flattened on "Emu" may still steepen on a growing "Europe"; and if Mr Alan Greenspan or the Treasuries market were to sneeze, a single currency would not prevent the euro bond market catching the US's cold. Emu will harmonise the European rate cycle; it will not (fortunately for the employment prospects of analysts and financial journalists alike) abolish it.

Alison Cottrell,
chief international economist,
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Passengers will pay more

From Mr Doug Newhouse.

Sir, the suggestion by Simon Coombe (Letters, October 18-19) that the transport of "highly flammable material" is one more reason to rid the European Union of duty-free allowances is a nonsense. Aircraft fuel is distributed evenly throughout the body and wings of most large commercial aircraft. At the same time, the flash point of aircraft fuel is substantially lower than alcohol. I cannot see what harm a trolley of duty free represents if most passengers are effectively sitting in the middle of a fuel tank.

Mr Coombe should stick to the facts. Without duty free allowances, most charter airlines will not make a profit unless they increase their fares by between 20 and 25 per cent. Airports will similarly increase their landing charges. Passengers will pay more for their holidays. These are the burning issues.

Doug Newhouse,
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Two cut stones with unrelated attitudes

From Mr William Essex.

Sir, Neither Lucy Kellaway's telling of it (October 13) nor Michael Mould's response (Letters, October 20) addresses the central flaw in the stonecutter story. Who is producing the better stones? Surely neither stonecutter's description of his job signifies anything except by reference to the product.

Surely, therefore, no management theorist can demonstrate anything by the story, because it would be impossible to produce two cut stones and relate the differences between them to the attitudes of the stonecutters responsible.

For myself, I don't care what Lucy Kellaway thinks she is doing, but I hope she goes on writing that column.

William Essex,
Potash Cottage,
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Personal View • **Larry Summers**

American eyes on Emu

The euro will be good for the US if it helps strengthen and modernise Europe's economy

The US relationship with Europe has long been the cornerstone of our economic and foreign policy. We have supported European efforts toward closer integration since the very start, from the creation of the European Coal and Steel Community to the common market, the single market and now plans for further enlargement. Today, another ambitious project, the creation of a single European currency, seems close to becoming a reality and is attracting serious attention in the US.

The administration has never thought it fitting to enter the debate over whether economic and monetary union is right for Europe, nor over the details of how it should be structured. But we can hardly be said to be indifferent to how the project turns out. The US is well served when Europe is vibrant economically and working to open its markets and strengthen its ties with the global economy. Europe will prosper from an economic and monetary union that supports these ends. And if Europe prospers, this will help prosperity in the US.

There are two sets of issues that interest us particularly. First, how will Emu affect the EU as a major economy and international partner of the US? And second, what will be its impact on the international financial system as a whole?

Recent efforts towards increased European integration – including some of the changes that have been associated with preparations for Emu – have already brought significant gains. Yet no one doubts that Europe still faces serious economic challenges that will need to be overcome if Emu is to succeed.

First among these is Europe's high rates of unemployment and, partly as a result of those labour market failures, its serious fiscal imbalances. In recent years, many countries have made significant progress on the fiscal side. But as governments have themselves recognised, Emu will make it even more vital to proceed with structural reforms to give their economies the flexibility and dynamism needed to spur rapid job creation and investment growth.

If there is a shock to demand, individual members of Emu will no longer have the freedom to respond by devaluing or revaluing their currency, or cutting or raising interest rates. Nor, given the terms of the stability and growth pact, will they be able to use fiscal stimuli to support growth.

Policymakers cannot afford to allow Emu to distract them from pursuing fundamental reforms. As we have seen in the recent flood of cross-country mergers and acquisitions, the European private sector is already responding to the new situation. Governments need to build on the growing consensus in favour of reform and put it to work achieving genuine changes on the ground.

It is equally vital that Emu does not distract from the important international challenges that Europe faces, particularly the expansion of the EU to incorporate several countries of the former Soviet bloc. This offers an historic chance to cement these countries' transition to a market democracy.

Turning to the second set of issues, clearly the US has a strong interest in the euro's potential impact on the international financial landscape. Two questions have been raised in this context: the effects on the international role of the dollar; and the implications for short-term trade and exchange-rate fluctuations.

We generally do not speculate about the future values of existing currencies, be they our own or others. This extends to future trends in the values of currencies that do not yet exist. With these qualifications, however, I would like to make a few general observations.

The first point we in the US must remember is that the buck stops – and starts – with us. In the end, the dollar's relative standing in the international financial system will always depend more on developments here than on events overseas. If we stick to strong and credible policies, the dollar will remain a sound currency.

It is difficult to predict with any certainty what the role of the newly created euro will be. Those who foresee it growing very rapidly in importance point to the fact that it will be the common currency of countries representing a significant share of global output. Those who are more sceptical argue that the euro will be without a proven track record. Investors, they say, will want to observe progress towards price stability before making a commitment.

Where there is little disagreement is that, barring major policy errors, international currency holdings do not change at great speed. In particular, European financial markets are unlikely to transform themselves overnight. It will take time before the range of euro-denominated assets comes close to matching the variety available in the US; or, given differing perceptions of the creditworthiness of government securities, the homogeneity of the US market for public debt.

On the matter of future trade and exchange rate fluctuations, we should remember that the main continental European currencies have been fixed among themselves for some time now, with little tendency to fluctuate. Equally, each country has tended to recognise the importance of strong monetary policies for achieving robust growth; and the need for these to be underpinned by a sturdy financial system, sound fiscal policies and independent central banks. In that sense, Emu will be a force for continuity. Indeed, the fiscal controls envisaged within Emu could well be a force for lower interest rates in the US.

The more the single currency helps Europe develop a robust and healthy economy open to world markets, the more welcome the project will be here

Clearly, the US government has no direct role in most of the preparations for Emu. It is a different story for American private sector companies actively involved in international trade or finance, or those with European operations. They have a lot of work to do in such domains as accounting, finance, and information management – work which, given the close proximity of Emu, probably needs to speed up in the months ahead. Although I cannot guarantee US business that Emu will occur as promised, I would advise them to be ready.

The advent of the single currency will also raise issues for the future evolution of the G7 and for Europe's future participation in international organisations such as the International Monetary Fund.

We look forward to engaging with the EU in these matters next year after the selection of the first members. The aim must be to ensure that Europe emerges out of Emu with the capacity to play an active, constructive role on the world stage on political, monetary and other matters. The corollary is that European policymakers will have to avoid being overly preoccupied with building and refining the architecture of monetary union.

But let me end by repeating the bottom line. The more the single currency helps Europe develop a robust and healthy economy open to world markets, the more welcome the project will be on this side of the Atlantic. Put it another way: if Emu works for Europe, it will work for us.

The author is US deputy secretary of the treasury. This article is adapted from testimony he gave yesterday to the Senate Budget Committee.

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Justice and Microsoft

The court action against Microsoft launched by the US justice department on Monday illustrates the problems of competition policy in technology businesses.

The suit argues that Microsoft has violated a previous promise not to force computer manufacturers which wish to buy a Microsoft operating aystem to license other software as well.

The other eoftware at stake here is Microsoft's Internet Explorer browser, for use in accessing the World Wide Web. Since Microsoft supplies thia software free, it might seem that forcing computer companies to licenae it along with Windows is unimportant. Competing software, auch as Netscape'e Navigator, is easily available. Microsoft has done nothing that atops computer companies and end-users from choosing these rival offerings.

But, says tha justice department, Internet Explorer is not just any old program. Browsers "are an important element in a fundamental challenge that is arising to Microsoft's operating system monopoly", says the justice department suit.

Browsers can be used as a substitute for the Windows user interface, potentially weakening Microsoft's hold on the market for PC operating systems. The justice department quotes from a Microsoft internal memo, dated April 1996, which told the company's marketing managers that "if yon let your customers deploy Netscape Navigator, you lose the leadership on the desktop". Hence the determination to make Internet Explorer as widely available as possible, using licensing muscle wbere necessary.

The problem with the justice department's suit, however, is that, in internet time, April 1996 is an age ago. Since then, Microsoft has greatly strengthened its position in browsers, and Netscape Navigator no longer looks like a Trojan horse for a rival operating system.

The main reason Microsoft has achieved this is not its licensing behaviour, but its breakneck technical development – its browser is now at least as good as Netscape's – and the deep pockets that allow it to give the program away. The next generation of the Windows operating system, due next year, will integrate browser technology into its inner workings in a way that makes the suit much weaker.

The suit demonstrates that such piecemeal legal remedies are always likely to lag behind events. The federal competition authorities would do better to address the underlying issue: is Microsoft's dominance of operating systems in users' interests? If it concludes that the answer is no, it will need to mount a far more solidly based case than it has yet been able to muster. And if it concludes that the answer is yes, it should leave the company alone.

Empty package

The Japanese economic reform package, announced yesterday, was much more than just a disappointment. In announcing only vague promises of deregulation, the anthorities have shown that they are not facing up to the seriousness of Japan's economic plight. Deregulation is certainly needed – and over a much greater range of the economy than is curreutly being suggested. But on its own, it will do little to get Japan out of the economic hole it is now in.

Over recent years, the Japanese economy bas been kept just this side of recession. At first, expansionary fiscal policy kept the economy going. April's rise in the sales tax put a dramatic end to this. Recently, exports have taken over as the main stimulus to growth. Now, though, this support too could be pulled away. The end of the fall in the yen, and the currency devaluations in Asia, mean that export growth may falter. Falling real incomes and a substantial debt overhang mean that there is little prospect of domestic demand plugging the gap. Japan thus risks sliding into full-blown recession.

The Japanese look short on options. The Bank of Japan's discount rate is down to 0.5 per cent. The Prime Minister has staked his reputation on reducing Japan'e hudget deficit, currently 7 per cent of gross domestic product. And further devaluation of tbe yen is unlikely to be tolerated by the US.

However, there are actions tbat could, and sbould, be taken. A reduction in the discount rate, say to 0.25 per cent, is one possibility. But it is on the fiscal side that most can be done.

The Ministry of Finance is insisting that any tax cuts must be matched with tax rises elsewhere. But there are two other options. One is to offset confidence-building tax cuts with rationalised expenditures. There is still a considerable amount of uneconomic public spending, often aimed at placating powerful interest groups, such as the construction industry. It is time for this to go.

The other option is to allow some easing of the fiscal stance. The Japanese fiscal deficit does, of course, need to be reduced. But it is now clear that the government chose the wrong time to tackle the problem. A partial reversal of this policy, whilst adhering rigidly to the principle of fiscal consolidation in the long term, could well be justified now.

Tbe Japaneee authorities have another chance to reverse the slide of their economy next month, wben the details of the package are announced. Deregulation must continue. But they must not rely on it to solve Japan's economic woes.

Common wealth

The Commonwealth has long been derided as a grouping which, if it did not exist, would not need to be invented. Attempts to give it more coherent purpose have too often simply underlined the political and economic disparities between its members. Now, they may have a chance to play a genuinely relevant common role.

The reason lies in the fundamental shifts under way in the world economy. Even a decade ago, much of the dialogue between rich and poor countries was ideologically coloured and centred on levels of official aid. The terms of debate have been transformed by the emergence of trade and private capital flows as the primary engines of global economic growth, increasing pressure on governments to reform and liberalise. These trends may not be universally welcomed, but are increasingly recognised as irreversible.

Tha changed climate is reflected in the choice of trade and investment as the headline theme of this weekend's Commonwaalth beads of governmant meeting in Edinburgh, and of the business forum which precedes it. Properly handled, these gatherings can make a distinctive contribution to the increasingly urgent task of managing global integration.

Every advance in that process exposes complex new policy challenges. One is that economic development is increasingly perceived to require fundamental political reforms, whicb encourage corruption-free government and tha rule of law. Another is the threat of economic marginalisation faced by many of the poorest countries. A third is divergent national stances on issues such as the environment.

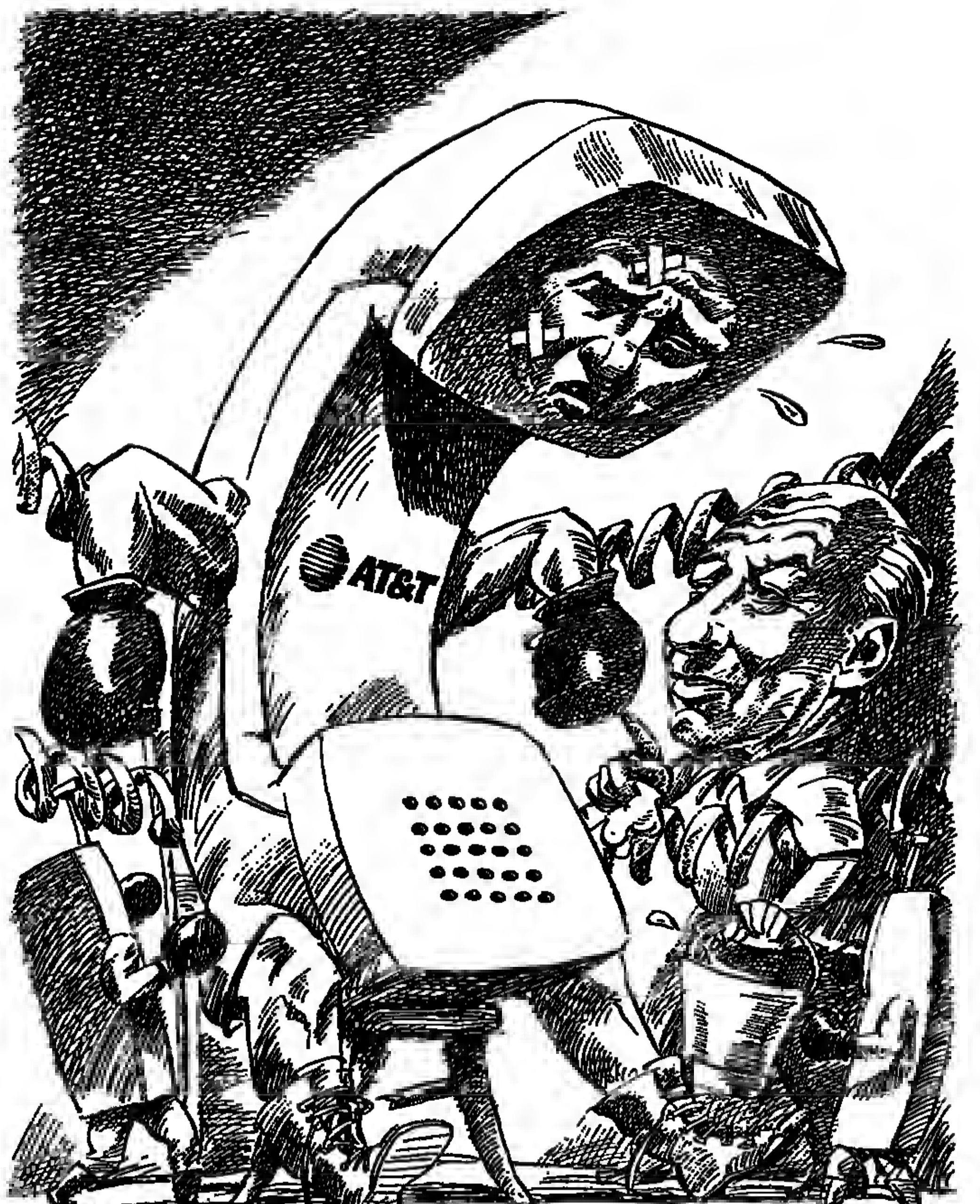
All these problems require a more co-ordinated global responea. Yet international institutions such as the United Nations, the World Bank and the International Monetary Fund appear ill-equipped to provide it – and can in some cases risk polarising further the positions of industrialised and developing economies.

The Commonwealth cannot hope to fill the vacuum. But it can aspire to help foster international consensus on contentious global issues. Such consensus may prove elusive. But in a world sbort of suitable forums for seeking it, the informality and economic and geographic diversity of the Commonwealth offer an opportunity which is worth seizing.

The leaders need to recognise that, whatever their differences, their citizens bave a shared interest in solutions which raise their nations' living standards. There has never been a better moment to revive the gronping's original purpose – enhancing members' common wealth.

Mother of all monoliths

The new boss at AT&T must reinvent the telecoms company if it is to keep pace with changes around it, says **Richard Waters**



For a corporate leviathan, adjusting to life in diminished circumstances is never easy. A company seen one day as an unstoppable monster can, wben stripped of its aura of invincibility, appears a pathetic shadow of its former self. Neither image may be the truth: but the sudden shift in perception is devastating.

This has certainly been the case with AT&T. Once a by-word for corporate power, the US telecommunications company has had its strength sapped by an assault from an army of newer competitors. Making matters worse has been a botcbed attempt to find a successor to Robert Allen, tha chairman and chief executive who has steered it through momentous changes since 1988.

The problem over succeesion, though cleared up this week with the appointment of Michael Armstrong as chairman and chief executive, has left the company without clear direction during a period of upheaval in the US telecommunications industry.

"They have lost time," says Mr Dan Reingold, a telecoms analyst at Merrill Lynch. "And that adds up to a lot of dollars."

But it would be wrong to write off AT&T. The company known as Ma Bell still has 90m customers and about half of the market for long-distance calls in the US. Its revenues, which topped $50bn last year, would still make it the biggest US telecoms company even if the struggle for control of MCI Communications results in an acquisition by either GTE or WorldCom.

To shake off its image as a laggard, AT&T will have to prove three things. One is that it can protect its own core long-distance business while gaining a foothold in the larger, $100bn local calling market, an opportunity created by last year's Telecommunications Act. Second, it must fill the vacuum that has passed for its international strategy. And third, it must prove that it can use its vast resources to gain a technological lead in an industry whose economics are being transformed by innovation.

Mr Armstrong does not underestimate the job of rebuilding. "There's a lot of similarity [with] what took place at IBM," says Mr Armstrong, who spent the first 30 years of his career at the computer giant. Like IBM, AT&T has allowed itself to be outflanked by smaller rivals. Also like IBM, it has now had to turn to an outsider to try to restore its flagging fortunes by re-inventing its staid, buttoned-down culture.

The task of shoring up AT&T's core long-distance husiness is already well advanced thanks partly to the executive wbose resignation in July made way for Mr Armstrong's arrival. John Walter, another outsider brought in as heir apparent only a year ago, quit when it became clear he did not have the backing of the company's board to snceeed Mr Allen.

The fruits of Mr Walter's efforts are clear. The company's share of the $80bn long-distance business has stabilised at about 50 per cent, after falling sharply over the previous year. For a former monopolist, AT&T has had to live with a steadily falling market share, but the speed of that fall had become alarming.

The stabilisation may only be temporary. The five Baby Bells, local carriers that were split off from AT&T in 1984, are chafing at tbe bit to get into tbe long-distance business. With a near-monopoly on local calls in their regions and control of the lines that link virtually every bome and most businesses to the wider telephone networks, they are in a good position to bite off a large piece of AT&T's business.

Mr Armstrong can thank the regulatory swamp created by last year's Telecoms Act for the fact that these companies are not already breathing down his neck. The Bells can only get into long distance after they have opened their local markets to competition: yet the act has proved a flawed tool in the hands of the Federal Communications Commission, which has been charged with prising open these markets. Until recently, this had seemed a problem mainly for long-distance companiee like AT&T, which have found it bard to break into local calling. But it now looks a blessing in disguise: the last thing Ma Bell needs is an all-out attack from her own offspring.

Eventually, though, the assault will come. Before it does, Mr Armstrong will have to find a more effective way than his predecessors of taking AT&T into local business. The company's executives indicated this week that attempts to break into local calling had ground to a halt. Gail McGovern, bead of its core consumer business, told Wall Street analysts that AT&T was no longer trying to win new local calling customers in the seven states where it has launched a service.

The poor showing is somewhat explained by the intransigence of the Bells, which have been slow to open their networks to competitors. But it also reflects strategic shortcomings at the long-distance carrier.

AT&T first tiptoed into the local markets, trying to resell capacity it bought wbolesale from the Bells even though the profits to be earned on this type of business are negligible. After failing to make much headway, it discussed a merger with SBC Communications, the Bell company that dominates California and the south-west. But the prospect of parts of the old Bell system recombining caused horror in Washington: the deal was ruled out by tbe FCC.

A similar step towards "vertical integration" in tha US telecoms industry was proposed last week by GTE, which hopes to combine its own local networks with tbe long-distance business of MCI. Yet even if this is approved by tbe regulatory autborities, it may not provide enough cover for AT&T to restart talks with a Baby Bell. Mr Armstrong bas indicated that AT&T would be pushing regulators to allow it to buy a local carrier.

Two other options are for AT&T to use its extensive wireless operations or to build its own facilities. Other AT&T executives have played down the prospect of a massive construction programme. "There'e simply no need to invest billions and billions of dollars," says Dan Somers, the chief financial officer brought in under Mr Walter. Owning the "pipes" through which telecoms traffic passes is not as important as creating, branding and selling telecoms services to customers.

If AT&T does not build the new networks itself, someone else will have to. That points to a strategy linking the company closely with tbe many so-called competitive local exchanges, or "Clecs", whicb bave sprung up around tbe country to chip away at the Bells' business. AT&T may not need to own these facilities itself, but it must find a way of securing their long-term loyalty. "They need to stimulate alternative forms of [local] access," says Mr Reingold of Merrill Lynch. "They sbould pnt seed capital into the Clecs, and make long-term revenue commitments to them."

If the local markets are AT&T's most immediate problem, its second task is to find a way of expanding its international influence. Tha company has sat by while other cross-border links have been formed aroond it – those between MCI and British Telecom on one side, and Sprint, France Télécom and Deutscbe Telekom on the other.

Mr Armstrong bas put international strategy at the centre of his plans, though offering few clues as to what be has in mind. He will only say: "AT&T has the resources and the technology to form partnerships and joint ventures, or to acquire the kind of partners that are necessary."

Even if AT&T does manage to reassert its position in the international, local and long-distance businesses, Mr Armstrong's job will be only half complete. He must also help AT&T master the technical changes that are sweeping the telecoms industry. This threat was summed up by this month's bid from WorldCom for MCI, a combination that would create a company with a dominant share of US internet traffic.

Until now, AT&T has looked like a potential victim, rather a beneficiary, of technological change. New rivals, armed with digital technologies, are springing up around it. These include Sprint, which is close to completing a new national wireless system, and two start-up companies, Qwest and IXC, which are building fibre-optic networks tbat could put the existing four national telecoms systems – one of them run by AT&T – in the shade.

It is the need to keep up with technological developments that, more than anything, explains why Mr Armstrong has been catapulted into the top job in US telecoms. Over the past five years, as cbairman of Hughes Electronics, he has turned the General Motors subsidiary into the most successful satellite television broadcaster in the US. Technological prowess was not something that Hogbes had lacked, but it took Mr Armstrong to develop that potential and add the marketing verve that created a new consumer market.

As AT&T looks to move away from its traditional voice-based, circuit-switched business, these skills will be in demand. Mr Armstrong claims not to have delved deeply into AT&T's technology base yet. But, he adds: "I do know that the shift from voice to data and video is profound; I do know that we're going from circuit switching to packet awitching; I do know that bandwidth on demand . . . is essential."

AT&T'e board has bet that Mr Armstrong is the man to unleash the potential in the company'e vast customer base and technological resources. They have also wagered that be will be able to do so before a new generation of telecoms companies grows up to deliver the sort of video, data and internet services that businesses and many residential customers are demanding.

"Tha technologies to support [these services] are known: they're here," says Mr Armstrong. "What is called for is their deployment."

· OBSERVER ·

Tsar's in their eyes

■ What to make of Boris Jordan's discomfitures in Moscow? The 31-year-old American – known as the "Tsar" for his role in putting Russia's booming stock market on the map – has already had his visa revoked twice in little more than a year. Now he's been warned that, as a foreigner, he might not receive a licence to run a Russian securities house.

It's all more than a minor inconvenience for the energetic Jordan, who was planning to merge Renaissance Capital – the bank he founded in 1995 – with tha Russian-owned MFK group. The former CSFB banker has returned to Moscow on a temporary visa to try and smooth things over with the authorities. The descendant of an émigré family, he is said to be considering taking out Russian citizenship as way through the regulatory thicket.

But exactly why the impeccably-connected Jordan has fallen foul of officialdom isn't clear. One theory holds that he's caught up in a "bankers' war" between rival financial factions. The young hot-shot has certainly got powerful friends on his side. George Soros was singing his praises in Moscow this week and Oneximbank chief Vladimir Potanin is another ally. But, inevitably, Jordan's picked up his share of powerful enemies on his way to becoming one of Moscow's big-hitters.

So while rival bankers are taking private pleasure from the disruption caused to Renaissance, they should be more than a little worried, too. If the Tsar can get snared in Moscow's tangled web of influence, what hope for the rest of the financial aristocracy?

Where's Bibi?

■ Israel's telegenic prime minister Benjamin Netanyahu doesn't usually miss a chance to parade in front of the cameras. Strange, then, that the well-groomed premier declined an invitation to attend yesterday's glitzy diplomatic gathering in Tel Aviv – the official opening of the Peres Centre for Peace.

The man who loves to mingle with the great and good passed up a golden opportunity to press flesh with the likes of IMF deputy director Stanley Fischer and Warren Christopher, former US secretary of state.

Of course, cuddling up to the man behind the centre – political rival Shimon Peres – was never going to be easy. Relations haven't been cordial since Netanyahu's wafer-thin election victory last year. And he's hardly an unconditional supporter of the Oslo peace process that Peres set in motion to international acclaim. But if the prime minister was aiming to keep a low profile, his strategy certainly missed its mark. He was more conspicuous by his absence than if he'd turned up wearing a frock.

A deal is cut

■ There may be mutterings about his suitability for the job but Nicky Oppenheimer, who doesn't even become De Beers chairman until January, is off to a good start with a deal which brings Russia back into the diamond cartel.

The third generation of the family to head the diamond business, 52-year-old Oppenheimer says he relishes tha challenge. But, beyond signing ceremonies in Moscow, he faces a much bigger test in trying to coax the Australians back into the fold. Western Australia's Argyle mine, tha world's biggest diamond producer in volume terms, angrily quit the cartel last year saying it had been badly served by De Beers.

Oppenheimer says he would welcome Argyle'e return but as yet there are no signs of rapprochement. "Once you've got a divorce, it's difficult to re-establish contact again. We would certainly do our bit if we felt that it was possible to get them back." Sounds like Oppenheimer will have his work cut out if he wants to prove that, like diamonds, cartels are forever.

Play that tune

■ Japan may have a reputation as a technological powerhouse, but the coontry's public sector often seems stuck in the era of carbon paper and blotting pads. Until now, that is. All 500 members of the lower house of the Diet have been given laptop computers and handy little printers to help them with the complicated business of government.

In theory, the politicians will be able to swap e-mail with voters and even check parliamentary proceedings over the internet – although, in practice, it'e going to be a while before the digital revolution is in full swing. The Diet has set up a help line to assist technologically-challenged parliamentarians. And it's been inundated with queries as basic as how to find the "on" switch.

Still, it shouldn't be long before the political elite feel quite at home with their new electronic gadgets. As well as the usual word processing and internet stuff, they're all loaded with karaoke software.

Financial Times

100 years ago

New Danubian Bridge
The Servian Government has expressed its willingness to pay the cost of tha construction of a new bridge to connect the two banks of the Danube between Turnu Severin on tha Roumanian side and Kladova on the Servian side, together with the construction of a new line of railway running from the Danube through Servia and ultimately to a port in the Adriatic. The bridge alone will cost twenty million francs. A delegate of the Roumanian Ministry of Public Works will shortly leave for Belgrade in order to discuss the details with the Servian Government.

50 years ago

State Gas Bill This Session
The gas industry is to be brought under public ownership this session, it was announced in the King's Speech at the opening of Parliament yesterday. As generally expected, no mention was made in the Speech to the steel industry, but later in the day Mr Attlee, during the debate declared:– "I believe there is an overwhelming case in the national interest . . . that it is the intention of the Government in the present Parliament to nationalise relevant portions of the iron and steel industry."

FINANCIAL TIMES
Wednesday October 22 1997

Virgin Express to list in US and Belgium

By Charis Gresser in London

Virgin Express, the low-cost airline based in Brussels and controlled by Richard Branson, is to become a publicly quoted company via a dual listing in the US and Belgium.

The company is due to have filed the required financial documents with the US Securities and Exchange Commission as early as today, and it is expected that its shares will start trading by the end of November.

The public offering marks a radical move for Mr Branson, who took his Virgin group private in 1988. Since then, it has grown into a sprawling empire ranging from wedding dresses to financial products. He also plans to offer shares in the company's rail business in the UK next year. Merrill Lynch, the investment bank, is understood to be advising on the Virgin Express offering.

Virgin Express carries about 2.5m passengers a year and flies from Brussels to seven destinations, including Rome, Barcelona and Nice.

The share listing, on both Nasdaq in the US and Brussels, is expected to capitalise Virgin Express at some $200m. About $100m of new money will be raised, with some of the proceeds going towards expanding the fleet and the rest being used to finance working capital.

Mr Branson does not plan to sell any shares in the offering, but his holding could be diluted to below 50 per cent. His group owns 90 per cent of the equity, while 10 per cent is held by the former shareholders of Eurobelgian Airlines (EBA).

Virgin acquired EBA in 1996 for $60m. Since then, its passenger numbers have jumped by more than 50 per cent and the mix of passengers has shifted towards scheduled, rather than charter flights.

The company is taking delivery of three new Boeing 737 aircraft next year, taking its total fleet to 18. The public offering will enable the company to expand its routes. It is believed to be looking at opportunities to connect Brussels with UK cities such as Edinburgh, Birmingham and Manchester.

The company is believed to make a small profit, after breaking even last year on turnover of about $180m.

Mr Branson will be chairman of the listed company. Also on the board is Jonathan Ornstein, chief executive of Virgin Express. He declined to comment specifically on the offering yesterday, but said: "Deregulation in the European airline market provides a one-off opportunity for the American low-cost concept."

Virgin Express will become the third European low-cost airline to be the subject of a public offering this year, along with Ryanair and Debonair.

Ticket to fly, Page 23

BC Partners raises $1.1bn for European buy-outs

By Katharine Campbell, Growing Business Correspondent

BC Partners, one of the early entrants to the pan-European management buy-out market, has raised an Ecu1bn ($1.12bn) fund targeted at the UK and continental Europe.

The size of the fund shows international investors' continuing enthusiasm for private equity in the region, as local economies restructure and throw up an increasing number of significant buy-out opportunities.

Last month, Doughty Hanson completed a $2.5bn fund, by far the largest to date. A handful of other managers are competing at that end of the market including Schroder Ventures (with a new $1bn fund) and Charterhouse (£800m).

The development of bigger funds means that private equity managers can compete effectively with industrial buyers for increasingly sizeable businesses. The BC Partners' fund will be invested over a period of three to four years in between 10 and 15 European companies, which would be sold for up to £1.5bn each.

John Burgess, a senior partner, predicted that deals would continue to grow. "There are some very large private businesses being sold in transactions worth $1bn or so."

The group's recent deals include the purchase in January of Elis, a French company that rents linen and uniforms. Elis is forecast to achieve sales of FFr5bn ($842m) in 1997, although no figure has been disclosed for the value of the buy-out. At the end of last year, it also backed a DM760m ($434m) buyout by managers at Techem, a German specialist property management company.

Mr Burgess said: "The message of shareholder value is definitely moving through the continent and driving large companies to focus on their core business." That meant more divestments for private equity participants to back, he forecast.

BC Partners last raised money in 1994 and has fully invested the Ecu450m proceeds from that exercise. Mr Burgess added that the new fund – its sixth – was heavily oversubscribed. "We could have raised a lot more, but we are not here to be the biggest. We are very selective."

Mr Burgess declined to disclose details of the partnership's investment record but said that three-quarters of the money raised in its latest fund was provided by investors who had backed its other funds. American investors contributed 40 per cent of the total.

Formed in 1986 as Baring Capital Investors, BC Partners was itself a result of a management buy-out from the investment banking group in 1995. The group has offices in London, Paris, Milan and Hamburg but unlike some other managers, it operates with a single partnership structure.

Citicorp takes $889m charge and cuts jobs

Continued from Page 1

and premises. Tom Jones, chief financial officer, said: "We've been getting ready to centralise and become more efficient for some time and the organisation to do this has been in place since March."

So far this year, the bank has changed its management structure to give William Campbell, a former chief executive of Philip Morris, the tobacco and consumer goods company, control of global retail banking and credit card operations. It has also consolidated its worldwide advertising and direct marketing accounts under the Young & Rubicam advertising agency.

Tom Hanley, banking analyst at UBS Securities, said these moves demonstrated thet Mr Reed was in "complete control" and added that the charge would strengthen the bank's position as the only truly global consumer banking franchise.

The company's results also showed that the turmoil in south-east Asian currencies during the third quarter had not affected its foreign exchange revenues.

But Mr Reed predicted that "continued turmoil would likely affect business volumes and credit quality in the region".

Japanese emergency package attacked as inadequate

By Paul Abrahams in Tokyo

A package of emergency measures proposed yesterday by Japan's ruling Liberal Democratic party to kick-start the country's stagnating economy was attacked as lacking detail and failing to address structural weaknesses.

The Nikkei 225 index of leading shares rose to a day's high of 17,554 before dropping 334 points, or nearly 2 per cent, to 17,210 after the package was announced.

Criticism came from western firms. "It was astonishingly short on specifics," said Robert Feldman, chief economist at Salomon Brothers in Tokyo.

Kanezo Muraoka, chief cabinet secretary, said the government would use the proposals by the LDP, which is the leading party in the ruling coalition, as the basis of an emergency economic package to be introduced next month. Revisions to taxes would take longer as the LDP's tax committee is unlikely to come to any conclusion until December.

The proposals included limited measures to promote deregulation and liquidity in the property market, help for small and medium-sized businesses and an undertaking to reform the tax system.

Funds will also support farmers and the construction industry – through bringing forward public works programmes – but there were no substantial prime pumping measures or fiscal loosening. Hiroshi Mitsuzuka, finance minister, said: "We'll do whatever is possibla to help the economy but we can't resort to fiscal spending."

Hopes that the LDP would reveal cuts in income tax or corporate tax were dashed. The LDP and bureaucrats from the ministry of finance have failed to reach agreement. The ministry is anxious that tax cuts should not worsen Japan's hefty fiscal deficit. However, further details may be disclosed later this week.

The most important measures were aimed at the troubled property sector where debts have hobbled Japan's banks. The LDP said it wanted to:

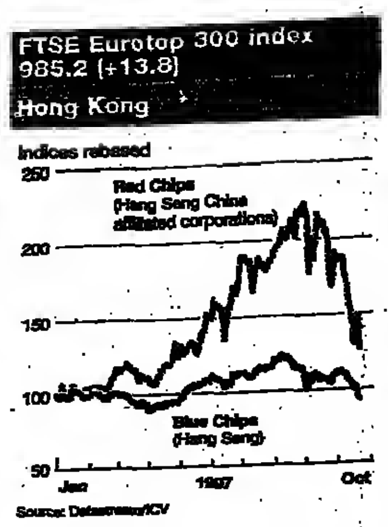
- Freeze or abolish the land holdings tax, which increases the cost of owning land.
- Review regional taxes on land sales.
- Ease rules on securitisation of real estate loans, a means of "packaging" portfolios of loans and selling them as bonds.
- Provide additional tax credits on residential house purchases.
- Report land transactions after, rather than before, deals.
- Change zoning rules.

Disappointing package, Page 6; Editorial comment, Page 15

THE LEX COLUMN

Blue chips see red

Europe and the US have survived the 10th anniversary of Black Monday unscathed. But Hong Kong has not, with the Hang Seng blue chip index falling 9 per cent this week. One explanation is continuing worry that Hong Kong could be infected by the currency crises raging through Asia. Last week's devaluation by Taiwan – like Hong Kong, a developed economy with strong foreign exchange reserves – has added to twitchiness. Though few believe the Hong Kong dollar's peg to the US dollar is under serious threat, interest rates have had to rise sharply to defend it. Given the stock market's weighting towards property and banks, equities have slid.



Source: Datastream/ICV

If currency nerves were the complete explanation, investors could be sanguine. As soon as calm returned, interest rates could fall. But there are two other causes for concern. First, the Asia tigers' problems may damage the real economy – for example, because their citizens will have less money to spend on visits to Hong Kong. Second, the fall in Hong Kong's blue chips has coincided with the pricking of the red chip bubble, as investors doubt how long Beijing will inject state assets into Hong Kong vehicles at bargain prices. There is even a small chance that this week's $4bn flotation of China Telecom (Hong Kong), the most high-profile red chip, could flop. That would raise the risk of contagion: since many local investors buy red chips with borrowed money, margin calls could force them to liquidate blue chips too.

Microsoft

What should investors make of the latest attack on Microsoft by the US Justice Department? In the short term, very little. Imagine the regulators are allowed to do their worst and the court imposes fines of $1m a day on the software giant. Even if those fines continued for ever, the financial impact at a 10 per cent discount rate would be $3.65bn – barely 2 per cent of Microsoft's market capitalisation.

The commercial consequences are potentially more serious. Having woken up late to the internet, Microsoft has been making up for lost time by offering its internet browser as a package with its dominant Windows operating system. If the Justice Department can prove this is an illegal abuse of market power and force Microsoft to "unbundle" its browser, it will hit at the group's attempt to extend its empire from computers to the net. That would be great news for Netscape, which still has about 60 per cent of the browser market but is rapidly losing share.

The real danger is longer term. So far, the view of Microsoft as an "evil empire" intent on domination has been largely confined to its rivals and a few computer nerds. If it ever spread to consumers, it could hamper the group's attempt to embrace new markets – as it must, if it is to maintain above-average growth. Of course, Microsoft could act with more sensitivity, particularly on issues like bundling. But the only game Bill Gates seems to play is hardball.

Endesa

With hindsight, one must ask whether the Spanish government was right to press ahead with the latest Endesa offering – at least while the power group was embroiled in a big Chilean political fracas. True, the hoo-ha has hit Endesa's share price out of all proportion. We are talking of a $1.2bn investment, small beer for a group with a $24bn enterprise value. Yet controversy was always likely. Endesa has acquired effective control of the Chilean group Enersis with a stake of just 26 per cent; it has done so by buying specially privileged shares in a few crucial holding companies. When the result is that seven Enersis managers are receiving $500m between them, it is hardly surprising that everyone from minority shareholders to leading Chilean politicians is bleating.

In the cold light of day, of course, none of this really explains why Endesa's share price should have underperformed by 12 per cent in the last month. Logically, even total collapse of the Chilean deal would not justify such a slide. It is the uncertainty, together with the blow to Endesa's reputation for nifty Latin American footwork, which has done the damage. And the overwhelming likelihood is that both worries will recede as some resolution to the Chilean situation is found. But this merely invites the question: even if it might not have got the aggressive Endesa share price of a few months ago, should the government not have held off until the row calmed down?

RJB Mining

The dramatic 24 per cent plunge in RJB Mining's share price is a reminder that it is both volatile and unloved. But if there is a message in this, it is as much about the inefficiency of the market as the outlook for the company. The run-up to the expiry next March of its contracts with the electricity generators – which account for about 85 per cent of sales – was always going to be fraught: sales are set to fall by some 30 per cent, and prices probably by at least 15 per cent.

When investors drove up the price to 625p 18 months ago, good operating figures blinded them to this reality. But the current price of 183½p is also other-worldly. The management must shoulder some of the blame. For too long it hoped for rescue from a coal-friendly Labour government, neglecting to realise that ministers were more worried about the environment than miners' jobs. Poor disclosure, which accounts for huge diversity in City of London forecasts, did not help.

The irony is that investors have become disaffected at just the moment that the company has started grasping nettles. After previously insisting it was not in the business of closing pits, RJB is now closing the Asfordby colliery and stopping development at another four. These sorts of cuts will provide a handsome boost to earnings. Buying ahead of the contract renegotiation may seem risky. But even assuming a gloomy outcome, the shares are probably trading on about seven times next year's earnings. That is hardly expensive.

Additional Lex on Harrisons & Crossfield, Page 23

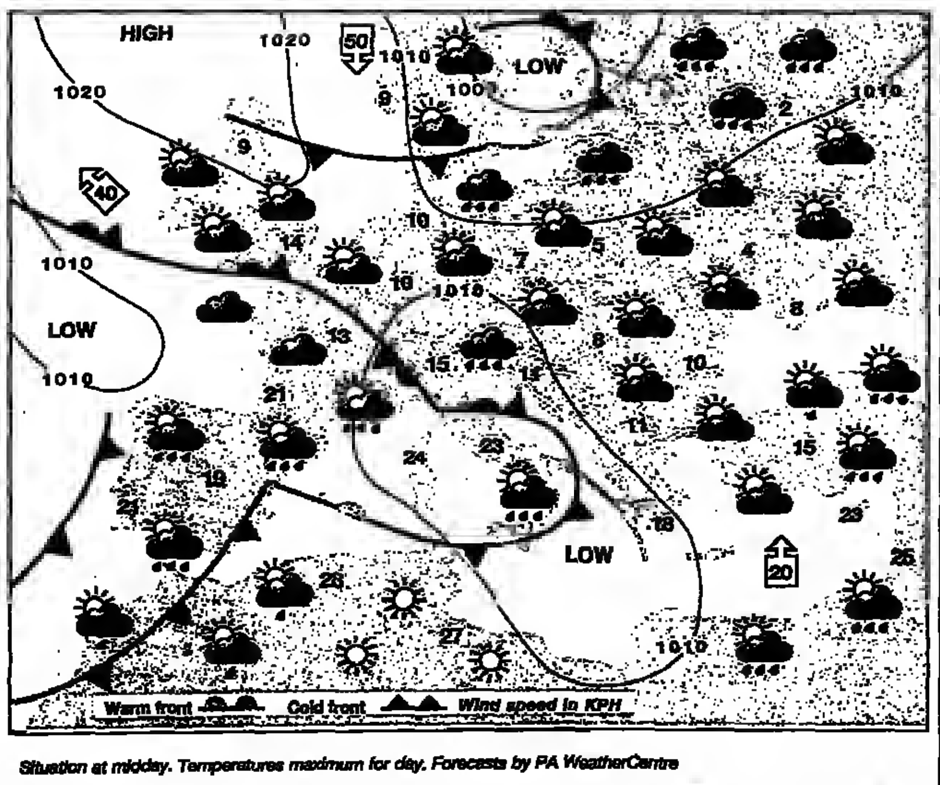
FT WEATHER GUIDE

Europe today

Scandinavia will have a cold northerly wind and sleet or snow showers. Heavier falls are possible later. South-east Scandinavia and the Baltic States will be warmer with outbreaks of rain. Eastern Europe and western Russia will be cold with temperatures below freezing at dawn but there will be some sun. Germany and Britain will also have dawn frost but there will be plenty of sunny spells. Central and western Europe will be rather cloudy but mostly dry. The western Mediterranean, Iberian Peninsula and Italy will have heavy showers and scattered thunderstorms.

Five-day forecast

The Mediterranean will stay unsettled with further showers in central areas. The east, however, should stay fine and the Iberian Peninsula will become drier. Much of western Europe will be dry but northern and eastern Europe will become wet.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius	
Abu Dhabi	Sun	33	91
Accra	Fair	31	88
Algiers	Fair	28	82
Amsterdam	Sun	10	52
Athens	Fair	18	64
Atlanta	Fair	21	70
B. Aires	Fair	24	75
B.ham	Sun	12	54
Bangkok	Shower	33	91
Barcelona	Fair	24	75
Beijing	Sun	22	72
Belfast	Fair	11	52
Belgrade	Cloudy	12	54
Berlin	Cloudy	7	45
Bermuda	Cloudy	24	75
Bogota	Shower	19	66
Bombay	Shower	35	95
Brussels	Sun	10	50
Budapest	Cloudy	8	46
C.hagen	Cloudy	7	45
Cairo	Fair	25	77
Caracas	Fair	32	90
Cardiff	Fair	12	54
Casablanca	Fair	25	77
Chicago	Shower	2	36
Cologne	Sun	10	50
Dakar	Fair	30	86
Dallas	Shower	21	70
Delhi	Fair	31	88
Dubai	Sun	33	91
Dublin	Fair	11	52
Dubrovnik	Rain	17	63
Edinburgh	Fair	10	50
Faro	Thunder	24	75
Frankfurt	Fair	9	48
Geneva	Cloudy	15	59
Gibraltar	Rain	21	70
Glasgow	Fair	10	50
Hamburg	Fair	9	48
Helsinki	Shower	2	36
Hong Kong	Fair	29	84
Honolulu	Fair	30	86
Istanbul	Fair	15	59
Jakarta	Fair	31	88
Jersey	Cloudy	14	57
Jo'burg	Sun	23	73
Karachi	Fair	33	91
Kuwait	Cloudy	34	93
L. Angeles	Sun	22	72
Las Palmas	Fair	23	73
Lima	Cloudy	24	75
Lisbon	Thunder	21	70
London	Sun	14	57
Lux.bourg	Fair	10	50
Lyon	Fair	18	64
Madeira	Shower	25	77
Madrid	Thunder	19	66
Majorca	Fair	24	75
Malta	Thunder	24	75
Manchester	Fair	11	52
Manila	Thunder	31	88
Melbourne	Fair	18	64
Mexico City	Fair	22	72
Miami	Fair	29	84
Milan	Rain	15	59
Montreal	Shower	4	39
Moscow	Drizzle	2	36
Munich	Fair	6	43
Nairobi	Cloudy	27	81
Naples	Thunder	21	70
Nassau	Fair	28	82
New York	Fair	13	55
Nice	Rain	17	63
Nicosia	Fair	23	73
Oslo	Fair	9	48
Paris	Cloudy	13	55
Perth	Fair	23	73
Prague	Fair	6	43
Rangoon	Fair	32	90
Reykjavik	Cloudy	6	43
Rio	Shower	25	77
Rome	Fair	23	73
S. Frsco	Sun	22	72
Seoul	Fair	21	70
Singapore	Thun	33	91
Stockholm	Shower	6	43
Strasb'rg	Cloudy	10	50
Sydney	Fair	18	64
Tangier	Fair	28	82
Tel Aviv	Thunder	25	77
Tokyo	Sun	22	72
Toronto	Fair	5	41
Vancouver	Cloudy	11	52
Venice	Rain	15	59
Vienna	Fair	8	48
Warsaw	Fair	5	41
Washington	Sun	15	59
Wellington	Shower	13	55
Winnipeg	Fair	-1	30
Zurich	Rain	10	50

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday October 22 1997 Week 43

INSIDE

ITT welcomes its white knight

It is a measure of ITT's desperation to thwart Hilton's hostile bid that it is prepared to sacrifice itself to a little-known company, Starwood, and that Rand Araskog, left, ITT's 65-year-old chairman and chief executive, will step down. But Mr Araskog has shown a deep antipathy towards Hilton ever since Stephen Bollenbach, Hilton's high-flying chief executive, launched his unsolicited offer in January. Page 22

Rain boosts Australian crop forecasts
Recent rain in crop-growing regions of Australia has improved the prospects of winter crop yields, according to the Australian Bureau of Agriculture and Resource Economics. Page 26

Athens on a winning streak
Bolstered by economic recovery and Greece's hosting of the 2004 Olympic Games, Athens has turned in one of the best emerging market performances of the year. Page 36

Railtrack debuts in bond markets
Railtrack, the UK privatised monopoly rail operator, made an aggressive debut in international bond markets with its first offering to help fund £10bn ($16.2bn) investment plans. Page 24

No unhappy returns to 1987
Crash? What crash? The western stock markets sighed with relief after it became clear that the tenth anniversary of the 1987 crisis had passed without any sign of a repetition. Page 36

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	444.5	+	15.5
BMW Pref	960	+	35
Karstadt	604	+	16.5
Linde	1158	+	33
Viag	873	+	13
Falls			
Wella	1330	−	25
NEW YORK ($)			
Rises			
CTS Corp	98⅛	+	8⅞
IBM	103⅞	+	6⅞
ICN Pharm	52⅛	+	3⅛
Falls			
Bemis Co	37	−	5⅛
Cadence Design	51⅛	−	4⅞
Guangshn Rail	12⅞	−	1⅞
LONDON (Pence)			
Rises			
Biocompatible	585	+	40
Hamleys	342½	+	18
PSD Group	420	+	29½
Westmount Engy	137½	+	18
Falls			
Bowmore Intl	307½	−	14
RJB Mining	183½	−	56½
TORONTO (C$)			
Rises			
Ballard Power	77.0	+	4.1
Delrina Corp	31.0	+	2.5
Senvest Cap	12.0	+	1.0
Falls			
Baton Brdcst	19.0	−	1.6
Skyjack Inc	15.25	−	1.75
Tasko Mining	3.7	−	0.35

PARIS (FFr)			
Rises			
Accor	1094	+	40
BNP	318.8	+	11.5
CPR	474	+	12.9
Soc General	926	+	20
Falls			
Chrstn Dior	722	−	31
Labinal	1682	−	38
TOKYO (Yen)			
Rises			
Daimaru Inc	454	+	34
Itoham Foods	446	+	28
Misawa Homes	494	+	46
Stochiku	912	+	31
Falls			
Asahi Optical	323	−	12
Tokyu Land	315	−	14
HONG KONG (HK$)			
Falls			
Beijing Ent	26.75	−	1.85
Cheung Kong	65.75	−	4.5
China Res	23.0	−	3.1
Citic Pacific	36.0	−	2.3
SHK Ppt	74.0	−	6.0
Swire Pefc A	50.5	−	3.25
BANGKOK (Baht)			
Rises			
Fancy Wood	29.25	+	2.5
Precious Ship	31.0	+	2.75
Safari World	21.0	+	1.75
Falls			
Castle Peak	28.25	−	3.25
Circuit Elec	33.0	−	3.5
Thai British	20.0	−	2.0

New York and Toronto prices at 12.30pm.

Wang expected to acquire Olsy in deal that could be worth $1bn

Olivetti close to selling IT unit

By Paul Betts in Milan

Olivetti is expected to complete within a few weeks the sale of its Olsy information technology systems and services subsidiary to Wang Laboratories of the US.

Banking officials in Milan said yesterday the deal could be worth as much as $1bn and would lead to the merger of Wang and Olsy. Wang would acquire Olsy, which has annual sales of about L4,500bn ($2.6m), in a cash and share transaction. In turn, Olivetti would become the largest shareholder in the US company with a stake of about 19 per cent. A deal would mark a further significant step in the transformation of Olivetti from an information technology company to a holding group, conducting its business through international alliances and partnerships.

The revamp has been the centrepiece of the rescue strategy of Roberto Colaninno, who took over as Olivetti chief executive 12 months ago when the Italian company appeared on the verge of collapse. In January, he helped orchestrate the disposal of the loss-making personal computers business. Last month, Olivetti entered into a L2,350bn telecommunications partnership with Mannesmann of Germany, which took a 49.9 per cent stake in Olivetti's fixed-line and mobile telecoms interests.

Olivetti is understood to be negotiating an international partnership for its Lexikon office equipment subsidiary - its third core business after telecommunications and information technology.

Talks are believed to be at an advanced stage over a technological partnership with Xerox of the US. This partnership could develop into a share swap, according to Italian banking officials.

Lexikon's principal international partner has been Canon, but the Japanese company is understood to be reluctant to extend its digital technology to Olivetti. The Italian company has sought a strategic partner to help it renew its office equipment product line.

Growing expectations that Olivetti is close to a deal with Wang have helped the Italian company's share rally over the L1,000 level this week. The rally has, in turn, fuelled expectations that Olivetti will soon announce details of its planned L670bn capital increase, involving new shares with a nominal value of L1,000, and convertible bonds. Olivetti shares need to trade over L1,000 before the company can launch the capital increase.

Analysts cautioned yesterday that the negotiations with Wang were more complex than Olivetti's recent telecommunications agreement with Mannesmann. In the case of Mannesmann, the deal involved Olivetti's prize holding in the fast-growing Omnitel mobile telecoms business, long regarded as the Italian company's most attractive asset.

China Telecom shares retreat on grey market

$4bn issue seen as benchmark for other Beijing-backed stocks

By John Ridding in Hong Kong

Shares in China Telecom, Hong Kong's biggest flotation, dipped to their issue price in grey market trading yesterday amid sharp falls in China-backed shares in the territory.

Analysts said China Telecom shares had fallen from a high of more than HK$20 this month to between HK$11.60 and HK$12 in unofficial trading, compared with a net issue price of HK$11.68.

The $4bn issue, set to start trading in New York today and in Hong Kong tomorrow, is seen as a benchmark for China-backed shares.

"If this one falls below the issue price, then it will be a blow to sentiment across the sector," said one broker at a Hong Kong investment bank.

The issue, globally coordinated by Goldman Sachs and China International Capital Corporation, was subscribed 30 times by Hong Kong investors. This was lower than expected and fell short of subscription rates for previous red-chip issues – Hong Kong-listed companies controlled by mainland businesses or government groups.

The muted response partly reflected a fall in China-backed shares in recent weeks. The drop continued yesterday, with the red-chip index tumbling more than 9 per cent to 2,329 points, extending a decline of some 40 per cent in the past month.

A fall in the broader stock market, which yesterday hit a six-month low, and a slowdown in asset injections from mainland parent companies have prompted the decline in the red-chip sector. This was accentuated by a speculative surge ahead of Hong Kong's return to Chinese sovereignty.

China Telecom is seen as a high-quality company compared with many China-backed issues on the Hong Kong market. Beijing's Ministry of Post and Telecommunications said the company would be the sole vehicle for foreign investment in China's fast-growing telecoms sector. Its main assets include the MPT's mobile telecoms operations in Guangdong and Zhejiang province.

Senior red-chip executives travelled to Beijing this week to secure backing for asset injections and acquisitions. But Zhu Rongji, China's top economics official, refused to make a statement of support, although he said any asset injections would be of high quality.

Asian clouds, Page 6
Lex, Page 16
World stocks, Page 36

De Beers chairman elect, Nicky Oppenheimer, left, speaking at a Moscow news conference next to Vyacheslav Shtyrov, president Almazy-Rossi-Sakha, Russia's biggest diamond producer, after Russia rejoined the cartel organised by De Beers Report, Page 26; Observer, Page 15 Picture: AP

Asset-backed bond for Swiss

By William Hall in Zurich and Edward Luce in London

Swiss investors were yesterday offered a chance to buy the first ever asset-backed bond to be listed on the Swiss stock exchange.

Credit Suisse First Boston, the investment bank, brought the SFr1bn ($600m) issue to the market for Citibank, the US bank. The issue by Citibank Credit Card Master Trust, which is backed by credit card receivables and has a five-year maturity, is also one of the largest offerings of debt ever launched on the Swiss market.

Asset-backed securities, which can also be secured against future income streams such as mortgage repayments and consumer loans, have become increasingly popular in the US.

The market for such securitised debt, which often carries a higher credit rating than conventional bonds, is also growing quickly in Europe, where outstanding issues are estimated at $35bn.

Yesterday's issue could kick-start a new market in Swiss franc-denominated issues.

A SFr700m issue, launched by Morgan Stanley, the US investment bank, earlier this year, was listed in Luxembourg. The Swiss stock exchange has been keen to capture a share of the asset-back securities market which it believes has "major development potential".

The Swiss exchange said the introduction of European monetary union was bound to increase the popularity of new instruments such as asset-backed securities.

The listing also comes at a time of rising competition between European exchanges in the run-up to the launch of Emu in just over a year.

The new securities will be listed on the Swiss stock exchange from November 14. Peter Schmuki, a managing director of CSFB, said the listing would help increase the attractions of the issue to retail investors.

The bonds carry a AAA credit rating and offer investors a yield about 20 basis points above yields on prime Swiss corporate debt.

Citibank currently refinances $45bn of credit card receivables through the asset-backed securities market.

Endesa shrugs off first day bout of selling

By David White in Madrid and Vincent Boland in London

Shares in Endesa, Spain's biggest electricity group, survived an early bout of selling yesterday after the state floated another tranche of its stake, closing just above the offer price to mark a successful opening day for the country's biggest privatisation.

But shares in Telecom Italia, where another of Europe's big shares offerings takes place this week, soared almost 3 per cent as interest from ordinary domestic investors looked set to be the highest yet in Italy's privatisation process.

Endesa's share price initially fell below the price of Pta2,685 at which institutional investors bought the shares in the secondary offering. Many investors appeared to be selling out immediately. Observers said this confirmed indications in the past few weeks that fund managers had little enthusiasm for more stock.

But the share price recovered to close up Pta35 on the day at Pta2,720. Turnover was 43.5m shares, sharply higher than the average daily turnover in the stock. Meanwhile the IBEX 35 index of leading Spanish stocks closed 2.6 per cent higher at 6,854.2.

Officials said they were not disappointed, however. Rodrigo Rato, economy and finance minister, commented: "These are things that happen on financial markets."

While the Endesa offering was a record for Spain, it raised less than the government had hoped. Proceeds were Pta670.1bn ($4.5bn), almost 16 per cent less than the minimum expected when applications for shares started three weeks ago.

The offering coincided with a general fall on the Madrid bourse and complications over Endesa's plans in Latin America. It has to renegotiate details of its strategic alliance with Chile's Enersis group, in which it has spent $1.3bn on buying a strategic stake.

Some observers also said too many shares were targeted at European investors. Some owned Endesa stock through earlier issues and considered the offering priced too high.

Lex, Page 16
Markets, Page 36

Barry Riley

Fund managers search for a new theme tune

Global equity managers licking their wounds over the failure of their time-honoured value strategies or the disasters of their country allocation decisions are anxiously searching for a more reliable approach. The solution, according to some, is "theme" investment.

Country-oriented management has left many global managers seriously underweight in the US and stuck in the disintegrating far eastern markets. The simplest alternative is to focus on global sectors – detailed in a report on European institutional investment by Greenwich Associates last month.

In Europe, a switch of emphasis is partly being driven by the approach of the single currency, which will remove much of the independence of national markets. The investment banks that provide most of the research also have their own agenda in terms of the huge fees obtainable from cross-border mergers focused within industrial sectors.

In providing an investment framework, however, sectors created by (and for) statisticians have serious drawbacks, especially during large-scale restructuring. Companies do not always fit into sectors, and, when they do, their technologies and markets may vary. In devising trans-sectoral themes, managers are attempting to select fundamental economic drivers to add value.

Guy Monson has been running the EquiSar fund of Sarasin Investment Management in London on a themed basis for 14 months. He has four global themes: multinationals selling to Asian consumers; the restructuring of industrial Europe; global energy demand; and the exploitation of technology. These themes, he estimates, embrace 35 per cent of world market capitalisation.

EquiSar has beaten the World Index by some 12 percentage points. Energy has turned out to be the best performer, but the technology theme has been been held back by Japanese exposure.

Single theming is hardly new and multi-theming could be seen as little more than a marketing gloss

In the UK the LGT group is launching a Global Dynamic Theme unit trust. Its chosen themes are the decline of the welfare state; the rise of emerging economies; breakdown of trade barriers; technology (again); and global population ageing.

Brokers BZW's quant team has launched a theme tune, with a UK domestic perspective. Brushing aside the headhunters, the team has picked five key drivers: convergence of long bond yields; the imminent peaking of short rates; a UK consumer downturn in 1998; low inflation; and downside risks for sterling. Meanwhile, Morgan Stanley has been developing indices, such as a privatisation index, that transcend normal sectors. It has launched an Emerging Growth Index for the US market, complete with options on the Pacific Stock Exchange.

The 50 constituents meet certain criteria for growth rate, size and return on equity. But Morgan Stanley admits that constituent turnover is likely to be upwards of 20 per cent a year, emphasising the will-o'-the-wisp nature of some of the themes.

Mr Monson emphasises the need to develop, or even change, the themes over time. His restructuring theme, for instance, could soon be extended from Europe to Japan, and the emerging consumer theme expanded from Asia to include Latin America and Eastern Europe. He is also interested in the demographic theme selected by LGT.

Single theming is hardly new (there are many technology and health funds, for instance) and multi-theming could be seen as little more than a marketing gloss overlaying the normal stock selection process.

But this may be unfair if themes drive fund managers to focus on the economic forces operating in a global economy. The old country-based strategies are being undermined by rising correlations. Themes do, at least, provide an escape route from the restrictions imposed by indices and risk controls – though doubtless we can expect a Morgan Stanley Global Ageing Index to be launched very soon.

Higher provisions hurt Thailand's banks

By William Barnes
in Bangkok

Bangkok Bank, Thailand's strongest and biggest, saw earnings slide 43 per cent to Bt2.93bn ($77.6m) in the third quarter.

Analysts said the drop came after the bank had added some Bt4bn to its bad debt provisions.

They added that Thai banks, several of which revealed poor unaudited third-quarter earnings figures yesterday, were building up their provisions in the belief that the economic situation would become worse before it improved.

Foreign exchange gains, estimated at more than Bt1bn for some leading banks, helped to cushion the effects of Thailand's severe economic downturn on the industry's profitability, analysts said.

"Many made some huge forex gains . . . which they whacked into the provisions which I'm very happy with. But the result, barring those forex gains, would have been horrible," said Russell Kopp, at Dresdner Kleinwort Benson Securities in Bangkok.

The large rises in non-interest income showed most banks had long dollar positions before the Thai baht was floated on July 2, analysts added.

The baht has subsequently lost more than 40 per cent of its value against the US dollar and touched a domestic market record low of Bt38.70 to the dollar yesterday.

Thai Farmers Bank, the second strongest institution after the Bangkok Bank, saw its third-quarter earnings decline 19 per cent to Bt2.58bn.

Siam Commercial Bank said its profits dropped 13 per cent to Bt2.02bn and loan loss reserves had been increased by Bt1.86bn.

The small Laem Thong Bank's earnings dropped 86 per cent to Bt7.49m, while Krung Thai Bank saw net profits drop 88 per cent from Bt2.87bn to Bt349.9m.

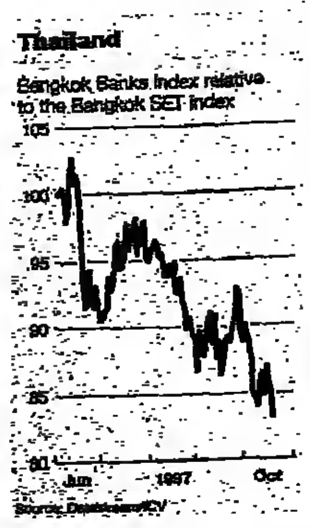
"The next quarter will be much worse," said Kenneth Ng, banking analyst at ING Barings in Bangkok. He added that a speedy introduction of foreign capital was needed.

Mr Ng estimated that up to $3.1bn would be required to recapitalise the banks if only half the non-performing loans were written off. Money, he added, was not available in a dramatically slowed economy being crushed under a mountain of bad debt.

The government last week announced that foreigners could own 100 per cent of any financial institution for up to 10 years and, in practice, much longer.

ING, of the Netherlands, recently acquired 10 per cent of Siam City Bank and foreign investors now hold 40 per cent of Laem Thong Bank.

Even Bangkok Bank has conceded that it might be interested in acquiring a strategic partner.



Normandy Mining upbeat

By Elizabeth Robinson
in Sydney

Normandy Mining, the largest gold producer in Australia, is heading for strong full-year earnings growth after first-quarter net profits rose 57 per cent to A$32.1m ($23.45m).

Robert Champion de Crespigny, chairman, told the annual meeting that the last year and a quarter had been "the most exceptional period in the evolution and growth of Normandy".

The company said its first quarter laid "a sound foundation for record earnings". Normandy's full-year profit last year was a record A$123.5m, up 24 per cent.

The group hopes to trade American Depositary Shares on the Toronto and Montreal exchanges within a few weeks, allowing it "to measure our performance in a gold sector three times the size of Australia", Mr de Crespigny said. Normandy makes up 24 per cent of the Australian gold index.


Robert Champion de Crespigny: 'most exceptional period'

He said Normandy would continue to drive down production costs, which in the last quarter were A$329 an ounce, compared with an average of A$336 for the last financial year.

Cash costs at the KCMG operations in Kalgoorlie fell to a record low of A$297 an ounce.

Mr de Crespigny expects costs at the Ovacik mine in Turkey to be US$175 an ounce when it starts producing in December. He said the Turkish project was forecast to produce 110,000 ounces a year and was running below its A$49m budget.

First-quarter exploration costs were A$14.8m and tests at its Kenyase project in Ghana are expected to reveal a "significant" increase in resources.

Gold production was 7 per cent lower at 318,447 ounces because of realignments at some mines. However, output at its Big Bell mine was 36 per cent higher.

● Ashton Mining, the diamond group, produced 10.4m carats in the three months to end-September and expects more than 12m in the next quarter.

It warned of lower sales to Asia because of the economic downturn in the region, but said these would be offset by increased demand in the US and Europe, which would leave retail sales over the year at similar levels to last year in local currency terms.

Songkla in oil refinery deal

By Ted Bardacke
in Bangkok

Kruppe Uhde & Thyssen Rheinstahl, a joint-venture of German engineering and construction companies, yesterday signed a contract with Thailand'a Songkla Petroleum to design and build a $3.2bn fully-integrated crude oil refinery and petrochemical complex in southern Thailand.

The contract, scheduled to be completed in three years, was signed in Bangkok by company executives in the presence of Klaus Kinkel, German foreign minister, and Korn Dabaransi, Thai industry minister.

The refinery complex will include a 150MW power plant and have a minimum refining capacity of 125,000 barrels a day.

The petrochemical plant will have an annual output of 250,000 tons of polyethylene, 210,000 tons of polypropylene, 25,000 tons of MTBE, 110,000 tons of butadiene and 70,000 tons of benzene.

Total Thai refining capacity currently stands at 760,000 b/d.

Songkla plans to export as much as 80 per cent of production. With domestic demand for refined crude producte having fellen sharply since Thailand's economic downturn, existing Thai refiners have stepped up exports and sold diesel at a discount of about 80 cents per barrel to Singapore spot quotes.

Royal Bank of Scotland acted as lead financial arranger for the deal, with Deutsche Morgan Grenfell acting as financial adviser.

ASIA-PACIFIC NEWS DIGEST

Suspension for Nikko Securities

Japan's Ministry of Finance yesterday indefinitely suspended Nikko Securities from bidding for and underwriting Japanese government bonds for its alleged involvement in a pay-off scandal. The punishment was necessary "to maintain the public trust and fairness in the government bond market", a ministry official said.

The suspension is an interim measure until the Securities Exchange and Surveillance Commission recommends a formal punishment for the country's third largest brokerage house. It comes after two former Nikko executives were arrested for allegedly paying Ryuichi Koike, a *sokaiya* racketeer, about Y14m ($115,000) through an illegal discretionary fund. Nomura Securities and Yamaichi Securities, Japan's other large brokerage houses, have also been suspended from bond operations and their executives arrested on similar charges involving the same racketeer.

AP-DJ, Tokyo

■ RETAILING

Yaohan plans staff cut

Yaohan Japan, the collapsed Japanese supermarket chain, plans to cut almost two-thirds of its staff as part of a restructuring programme. The company filed for court protection from creditors last month, with debts of more than Y160bn ($1.32bn). Of 1,700 Japanese employees worldwide, more than 100 have already chosen to leave. Yaohan aims to reduce the total number of staff to about 650, mainly through transfers to other companies, voluntary redundancies and early retirement.

The largest single group of employees affected is the 400 workers who this year were temporarily transferred to Daiei, another supermarket chain which acquired 16 of Yaohan's stores in February. Their transfer will now be made permanent. Yaohan gave no deadline for completing the plans.

Bethan Hutton, Tokyo

■ FOODS

Burns Philp to sell consumer unit

Burns Philp, the troubled Australian food group, is selling its Australian and New Zealand consumer businesses to Goodman Fielder for about A$29m (US$21.2m). The sale follows the disposal of its US and European spices business for US$171m to a US management buy-out group after it had written down the value by A$700m. Tom Degnan, Burns Philp managing director, said the group's priority was to finalise its restructuring proposal which included a two-month debt standstill from its bankers.

Elizabeth Robinson, Sydney

Merger helps BPI to 50% rise at nine-month stage

By Justin Marozzi
in Manila

Bank of the Philippine Islands, one of the country's largest banks, yesterday unveiled a 50 per cent jump in net profit for the first nine months of the year, to 3.68bn pesos ($108m). The bank said that it was boosted by the merger late last year with Citytrust Banking.

Bottom line growth was also lifted by interest income and fees which reached 14.28bn pesos, representing about 80 per cent of total revennes. BPI shares rose 2 pesos to 103 pesos.

However, analysts said the third-quarter performance was disappointing, following the bank's loss on government security trading. The dramatic rise in interest rates in the aftermath of the peso collapse accounted for this loss.

Xavier Loinaz, BPI president, forecast net profit of 4.8bn pesos for the full year. One analyst said he did not think this would be achieved and was cutting his full-year forecast by 10 per cent, to 4.45bn pesos.

"One-third of BPI's business is in consumer banking which is very sensitive to interest rates," Mr Loinaz said. "It is very difficult to reprice loans without triggering a rise in defaulters, but at the same time they have to adjust to the new tighter climate."

BPI has emerged as one of the more solid Philippine banks amid the turmoil in south-east Asia's financial sector. A recent report from Deutsche Morgan Grenfell said dollar loans represented 9 per cent of its total portfolio, the lowest among the top 10 banks, while its 125 per cent coverage of non-performing loans was the highest. Non-performing loans represented 1.4 per cent of total lendings.

BPI's merger with Citytrust was the first big consolidation in a domestic banking sector which has 53 commercial banks and 800 rural credit institutions.

The tie-up expanded the bank's national reach, with a rise in its branch network from 360 to 420. It also took its assets from 152bn pesos to 177bn pesos. Analysts said these had since increased to 204bn pesos.

Together with the overheated local property sector, banking has been the hardest hit sector by the regional currency crisis.

Monsanto slides to $133m loss

By Nikki Tait in Chicago

The combination of higher product davalopment costs and a one-off write-off related to its recent Holden'a Seeds acquisition pushed Monsanto, the large US agriproducts, pharmaceuticals and biotechnology company, to a $133m loss after tax in the third quarter.

That compared with a $170m profit a year ago, and took the result for the first nine months of the financial year to $465m, down from $795m previously.

Sales in the third quarter were $1.7bn, compared with $1.4bn a year earlier.

Tha results wera the first published since Monsanto spun off its chemicals operations last month as a aeparate quoted company, called Solutia.

In the results, the St Louis-based group treated the chemicals interests as discontinued businesses, taking in their earnings for July and August.

It aald that the core, ongoing operations made a net loss of $167m in the third quarter, or a deficit of 28 cents a share, down from a profit of $107m for the aame businesses a year earlier.

The loss largely reflected a $436m charge to write off "acquired in-process research and development", associated with the Holden'a deal.

Robert Shapiro, Monsanto's chairman, acknowledged that costs resulting from new product development activities were "increasingly affecting income from ongolng operations", but stressed that R&D was essential to the group's business.

The Searle pharmaceutical division has a number of drugs in advanced testing, and Monsanto is also working aggressively on genetically-engineered crop products.

Last month, amid some nervousness on Wall Street, Monsanto warned analysts that a sharp increase in technology spending would depress the third quarter results.

However, It also said it expected to offset increased R&D outlays by entering partnerships and other arrangements in the second half of 1997, and fourth quarter results ahould sbow a "aubstantlal" increase. The company said yesterday, that total technology expenditures had been up by about 20 per cent in the third quarter, and by 40 per cent in the pharmaceutical division.

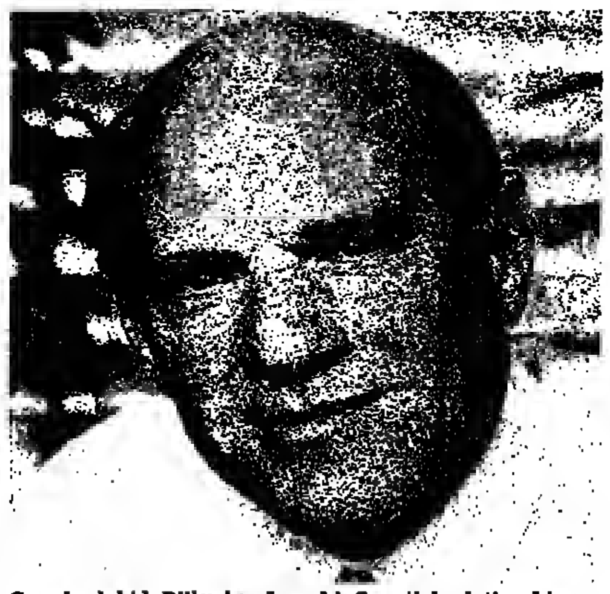
These figures would probably "continue to trend upwards" over the coming year, it added.

● Cargill, the giant grain, agricultural and industrial products company, said it saw a 48 per cent drop in profits during the three months to end-August.

The privately-owned company, which ia based in Minneapolis, blamed the downturn on "extraordinarily difficult" market conditions – notably tight grain and oilseed supplies and excess capscity in the food processing sector.

Barry Diller returns

By Christopher Parkes in Los Angeles



Comeback kid: Diller has forged influential relationships

As Walt Disney's Michael Eisner can testify after his humbling and costly falling out with long-time buddy and short-lived group president Michael Ovitz, business and friendship do not necessarily mix well.

Yet Edgar Bronfman Jr sppears to have had no hesitstion in passing operational control of the bulk of Seagram's Universal Studios television operations to Barry Diller, a friend of more than 20 years.

Nor did Wall Street have any doubts in marking np both Universal and Mr Diller's HSN stocks more than than 8 per cent after tbe $4bn link-up was announced on Mondsy.

The marriage of Seagram's corporate wealth and Mr Diller's vaunted professionalism was acclaimed as the ideal response to investors' concerns that Universal did not own enough outlets to extract the full benefit from its film and television programmes.

The issue now appears to be closed. Universsl has access to the 18 broadcast stations partly or wholly owned by Mr Diller's HSN group, sooo to be renamed USA Networks. With a 15 per cent HSN stake in the hands of Liberty Media, a programming business owned by Tele-Communications Inc (TCI), the Seagram interests bave an intimate link with the biggest US cable TV provider.

Seagram will own 45 per cent of USA and will have four seats on its board, while Mr Diller will become a director of Seagram. The agreement allows the company to buy Mr Diller's 8 per cent share should he retire, with a conditional option on the Liberty stake.

But Mr Diller, 55, is not a man to quit when he is ahead. Put in charge of the ABC network's primetime programming in his mid-twenties, he rose to run Paramount Pictures in his early thirties.

He climbed even higher in Hollywood's estimation during the 1980s when he built News Corporation's Fox Network into the first and only successful challenger to the dominance of the "big three" – ABC, NBC and CBS – in national broadcasting.

On leaving News Corp, he swore he would only work for himself in the future, and built his own entertainment group. Knocked out of the bidding for Paramount and failing in an attempt to buy CBS, he created a modest foundation on the Home Shopping Network and Silver King, a 12-station broadcaster. Earlier this year, he bought control of the Ticketmaster entertainment booking business.

In the process he has forged influential relationships. Paul Allen, co-founder of Microsoft, from whom he bought the Ticketmaster stake, owns 8 per cent of HSN.

US banks robust in third quarter

By John Authers in New York

US banks reported sharply improved third-quarter results yesterday, as tbay benefited from increased trading revenues, improved credit card loss rates, and continuing strong non-interest earnings from activities such as fund management.

Several banks also benefited from savings following mergers.

Chase Manhattan, tbe largest US bank, led the way with profits rising to $1.027bn for the quarter, up from $878m last year, before merger-related costs were taken into account. Earnings per share stood at $2.26, comfortably ahead of the $2.16 which had been predicted by analysts polled by First Call, the Boston-based research organisation.

Tom Hanley, banking analyst at UBS Securitiaa, suggested its revenue performance, up 24 per cent year on year, was the key to Chase'a growth, and had been paced by trading and corporate finance. Chase's revenue from corporate finance rose from $234m to $308m, while net income from its global markets business was up 32 per cent, thanks mainly to record trading revenues.

Revenue growth allowed Chase's efficiency ratio, expressing administrative expenses as a proportion of revenue, to fall from 57 to 53 per cant. Chase shares gained $1⅝ to 123\frac{1}{16}$ in morning trading.

Wells Fargo, the San Francisco-based commerclal bank, enjoyed the strongest performance on the market, with lts shares rising rose 15\frac{5}{16}$ to $306⅝, or 5.21 per cent.

Its results continued to be dogged by its problems integrating Los Angeles-based First Interstate, which lt bought in a $12.3bn hostile takeover last year. So far both cost savings and revenues have been below forecasts, and the company's share prica has suffered badly as a result, dropping more than 30 per cent.

Tha market responded positively because it took the third quarter results as evidence that the integration problems were finally at an end.

Total earnings per share, at $3.26, were still barely ahead of the $3.23 recorded for the equivalent period last year, but were ahead of Wall Street estlmates. Paul Hazen, chairman, said both loans and deposits had bottomed out in August, and had grown in September.

However, lts shares ahowed the greatest improvement of any of the banks in morning trading, as investors treated the figures as evidence that the integration problems had finally "bottomed out".

Banc One, the Columbus-based regional bank which announced on Monday that it was buying First Commerce, the largest bank in Louisiana, for $3bn, also gained on the back of earnings of $433.m, ahead of the $412.8m reported for the same period last year. However, its shares gained only $⅛ to 53\frac{11}{16}$.

Credit card results across the industry appeared to show that bad debts, largely caused by high rates of personal bankruptcies, had peaked in the second quarter. Total write-offs of bad debts fell from 5.99 to 5.57 per cent at Chase, from 6.13 to 5.58 per cent at Citicorp, a d from 6.22 to 5.78 per cent at Banc One. Most banks had seen charges increase consistently since late 1994.

Chase in credit card deal

Bank of New York yesterday announced it bad sold its entire credit card portfolio to Chase Manhattan for abont $200m, in a deal reflecting the increasing importance banks are giving to economies of scale in the credit card business, writes John Authers.

The deal adds bulk to Cbase's considerable credit card portfolio, which ranked it as the fourth largest US credit card issuer. It also gives Bank of New York, which was advised by Goldman Sachs, greater flexibility to continne its acquisition campaign in the securities processing business, where it has made 24 acquisitions in the past four years.

The transaction includes $4.2bn in receiyables and approximately 3.7m cards, and will expand Chase's credit card business to cover more than 20m accounts, and about $30bn in receivables.

Donald Boudreau, of Chase, said consolidation allowed the bank "to take advantage of our existing acale and technology platforms".

Several other large blocks of credit card business are also effectively for sale. AT&T, the telecommunications company, announced on Monday that it was seeking a boyer for its credit card business; Advanta, a specialist "mono-line" credit card issuing bank, has been condncting a strategic review, including the possibility of a sale, since March.

Boost for US drugs groups

By Tracy Corrigan in New York

Strong US sales helped boost earnings for several pharmaceuticals companies whicb reported third-quarter results yesterday.

Shares in Briatol-Myers Squibb rallied $⅝ to $86⅝ in early trading after it announced earnings per share of 86 cents, a cent above analysts' estimates.

Analysts said that the company'a recent launches – cholesterol-lowering Pravachol, Glucophage for the treatment of diabetes and anti-retroviral agent Zerit – were performing strongly. Taxol, the company'a leading anti-cancer agent, increased sales 18 per cent to $242m.

Schering-Plough reported net income for the quarter of $353m, or 48 cents a share in line with estimates and 23 per cent up from the previous year.

Revenues cllmbed to $1.7bn from $1.38bn.

American Home Products reported s fall in net income for the quarter after special charges relating to withdrawal of its anti-obesity products Redux and Pondimin.

Net income of $435.5m, or 67 cents a ahare, was down from $491m, or 77 cents, for the same period last year.

Refineries lift Texaco, Exxon

By Christopher Parkes in Los Angeles

Sharply higher profits from refinery products, the result of cheaper feedstock and increased volume aalea, pushed third-quarter income at Texaco and Exxon well above analysts' forecasts.

Texaco's earnings per share rose almost 14 per cent to 91 cents, compared with 80 cents last year, and predictions of 84 cents.

Downstream earnings in tbe US, wbere branded motor fuel sales increased 8 per cent, rose 40 per cent to $132m. Overseas income from this sector increased more than three-fold to $134m.

Thia was more than enough to offset the impact of lower crude prices – down $1.37 a barrel in the US and an average $2.55 abroad – which ate into aggregate exploration and production profits of $335m, compared with $394m last time.

With group net income up 13 per cent to $490m, Peter Bijur, chairman, said the quarter's performance demonstrated the momentum the company was building, and he highlighted a 34 per cent rise in spending on exploration and capltal investment designed to maintain the trend.

Initiatlves during the quarter included the purchase of a 20 per cent stake in the Karachaganak oil and gas field in Kazakbstan and a deal to bolster its depleting US reserves by buying Monterey Resources, a heavy crude producer in California.

Exxon reported a similar pattern of revenues and profits which generated a rise of almost 20 per cent in earnings per share. At 74 cents, compared with 62 cents last year, this beat forecasts by 3 cents.

US profits from refining and markating of $182m were almost three times higher than the $58m earned in tbe third quarter last year, while overseas income from these activities more than doubled from $168m to $345m.

Worldwide refinery throughput rose to 4m barrels a day from 3.8m, and daily petroleum product sales increased from 5.2m barrels to 5.4m.

Chemicals production and sales reached new records, Exxon noted, although prices and margins weakened and earnings were little changed at $349m, compared with $341m last time.

Desplte disturbances in some Asian money markets, the company said lt did not detect any impact on sales or earninga altbongh tbe atrength of the dollar had diluted realisations from European natural gas sales.

Lucent beats forecasts

By Nicholas Denton in San Francisco

Lucant Technologiea, the talecom aquipment maker spun off from AT&T, capped its first full year of independence by announcing yesterday fourth quarter earnings substantially in excess of expectations.

But one-time charges associated with one of the company's recent acquisitions, the voice-messaging system maker Octel Communications, resulted in a $597m loss for the period.

Excluding these factors, however, Lucent earned $369m, or 57 cents a share, easily surpassing tbe 51 cents average forecast by investment bank analysts polled by First Call.

The fourth-quarter performance took revenues for the year as a whole to $26.4bn, a 13 per cent increase on 1995-96. Net income for the year excluding charges was $1.5bn, up 45 per cent.

The results, wbich come amid a quarterly reporting season in which all the main communications equipment companiea apart from Ascend have performed strongly, lifted Lucant shares, whicb rose 1⅝ to 87⅝ in morning trading.

Locent's market capitalisation, lifted by a 78 per cent share price increase over the last 12 months, now stands at $56bn, three quarters the level of its slower-growing former parent.

Lucent, together with its foreign counterparts, is benefiting from the growth in wireless communications.

Other factors supporting revenue growth are the boom in data communications and the tendency of corporata customers to demand completa systems rather than specific solutions.

Lucent, which last week announced the acquisition of Livingston Enterprisas, plans to exploit these trends by making further acquisitions, primarily in data networking areas where lt bas historically been weak.

Dresdner to acquire Vereinsbank unit

By Andrew Fisher in Frankfurt

Dresdner Bank, which has been shaken by management changes and resignations linked with tax allegations, yesterday announced a surprise agreement to buy the direct banking activities of Bayerische Vereinsbank.

Dresdner's agreed purchase of Advance Bank, set np by Vereinsbank at the start of last year, is a result of the Bavarian bank's planned merger with Bayerischa Hypotheken- und Wechsel-Bank.

The direct banking activities of the merged bank will be concentrated on Direkt Anlage Bank, Hypo-Bank's discount broking unit.

The deal, near completion, marks a further step in the restructuring of the German banking scene.

Dresdner decided later than its rivals to set up its own direct bank, bnt its preparations have been dogged by technical problems and internal opposition, analysts said.

With tha purchase of Advance Bank – for an undisclosed price – Dresdner will immediately gain about 40,000 direct banking customers to give it a strong start in this field. Its direct banking activities, for which it has already allotted DM150m ($84.7m) of capital and reserves, will be carried out under tha Advance Bank name.

As with other German direct banks, sucb as Commerzbank's Comdirect and Deutscbe Bank's Bank 24, the Vereinsbank operation still has to reach break-even.

The deal is tbe first positive news for Dresdner for some weeks. Wolfgang Röller, supervisory board chairman, resigned last month over alleged tax evasion. This was followed by the resignation of Hans-Günther Adenauer, a management board member, over his personal tax affairs.

Preceding these departures was the news that Jürgen Sarrazin would retire as management board chairman next May, earlier than expected, to be succeeded by Bernhard Walther. The move was aimed at giving the bank a clearer profile at a time of intensifying domestic and global competition.

Dresdner will be displaced as Germany's second biggest bank by the merged Bavarian bank, to be called Bayerische Hypo- und Vereinsbank. The two Bavarian banks will given details of their nine-monthly performance today, with analysts expecting them to show a marked increase.

Dresdner said the acquisition of Advance Bank would complement its own preparations to build a direct bank, since both laid emphasis on financial and investment advice for customers.

As well as Municb, where Advance is based, Dresdner will carry out direct banking operations from Duisburg, the north German city.

Lukoil bond breaks records

By Edward Luce

Lukoil, Russia's largest oil company, yesterday broke international records by issuing a convertible bond at a 64 per cent premium to its present share price.

The seven-year $350m offering, which was five times subscribed according to SBC Warburg, the lead manager, was seen as a strong statement of confidence in Lukoil's growth prospects. Convertible bonds are bonds which the investor can convert into shares at any stage during the life of the paper.

"We rarely see a convertible bond with a conversion premium of more than 20 per cent," said an official at SBC Warburg. "Sixty-four per cent is unprecedented in the international capital markets."

An official said the success of Lukoil's first public convertible bond – a $230m offering earlier this year – bad encouraged the company to return to the markets with an aggressively-priced offering. Lukoil's first offering is trading at 160 per cent of its initial launch price.

The 64 per cent conversion premium is based on the average share price of Lukoil's ordinary shares over the last five days. Lukoil's Russian shares were trading at $27.35 at the time of yesterday's launch, making an average of $27.12 over the five-day period.

Investors wbo hold the bond to its maturity in 2003 will receive 153 per cent of the initial bond price in redemption. This also represents an unusually high premium on a convertible bond.

At a market capitalisation of $18bn, Lukoil is Russia's largest company, ahead of Gazprom, tha country's biggest gas company.

Yesterday's offering represents 1.9 per cent of Lukoil's market capitalisation at the 64 per cent conversion price. Officials said tbere was unusually strong demand for the offering from Asia and Latin America investors. "It was an unusnal bond with an unusual order book," said one banker.

ABB axe swings back into action

Engineering group's decision to cut a further 10,000 staff is a painful surprise

ABB, the Swiss-Swedish engineering group's, has naver made a secret of the fact that its strategy of expanding prodnction in emerging economies requires steady job cuts in its establishad manufacturing centres in Europe.

However, yeaterday'a announcement that 10,000 jobs are to go in western Europe and North America came as a painful surprise to the workers. And the related charges of $850m were a shock to investors.

"The timing and scale are a shock. It's a massive speeding-up of their strategy," says Mark Davies Jones, analyst at Salomon Brothers, the US investment bank.

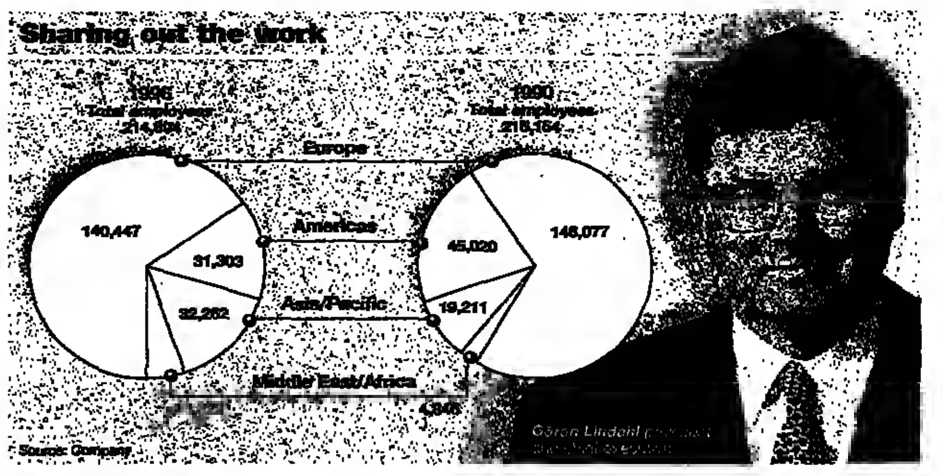
ABB has moved faster than it had intended because of economic turmoil in south-east Asia, which includes some of its most important markets.

The indefinite postponement of the $5bn Bakun bydro-electric project in Malaysia was a particular blow, for which ABB is taking a separate charge of $100m.

Since the early 1990s, ABB has pursued expansion in developing countries faster than international rivals.

Percy Barnevik, chief executive until the start of this year when he became non-executive chairman, argues that local production in emerging economies brings ABB closer to customers and helps reduce costs.

ABB cut 59,000 jobs in western Europe and North America in 1990-96 and created 56,000, mainly in east Asia and eastern Europe. The total payroll stayed roughly constant at 215,000.



However, the reductions included heavy one-off cuts caused by the rationalisation of Asea and Brown Boveri, the two companies which merged in 1989 to form ABB.

So, while it was clear some job cnts would continue, many ABB staff in western Europe hoped that the worst was over.

The company is reckoned in the engineering industry to be comfortably ahead in cost cutting of rivals such as Germany's Siemens and GEC-Alstbom, tbe Anglo-French joint venture.

But Göran Lindahl, Mr Barnevik's successor, has decided that the economic slowdown in south-east Asia, compounded by the decline of currencies in the region, has made it necessary to accelerate east Asian expansion. He also says that current weakness makes south-east Asia a more attractive export base for ABB.

The axe is to fall mainly in Germany, Italy, Spain, Sweden, Switzerland and the US. The principal cuts and closures will be concentrated in power generation, wbich accounts for about a quarter of ABB's business. Margins in this sector are under particular pressure from international competition and ABB declined to say which plants might be affected.

Its largest European power generation factories are in Switzerland, Germany and Sweden. About $600m of the charge covers redundancy payments; the rest asset write-offs and closure costs.

Although the action comes only four years after ABB took a $500m provisioo, reduced its workforce by about 7,000, and closed 15 plants, Mr Lindahl says the provisions do not look large when viewed in the context of ABB's first decade.

"If you take the combined provisions of $1.35bn it only works out at $135m a year over a 10-year period – whicb is not a lot for a $35bn-a- year company," be says. He believes that the latest cuts will not damage the group's target of reacbing sales of $50bn a year by 2001.

Mr Lindahl forecast that south-east Asia will recover from its problems like Mexico which is now "booming again". He remains confident that the Bakun dam project, the biggest contract in ABB's bistory, will go ahead within the next two to three years.

Nevertheless, he does oot minimise the fact that the postponement is a serious blow. There were 400 ABB staff already on site and aootber 1,000 engineers working on the project at ABB's plants. The company had already built a test cable for its high-voltage direct current transmission system, which was to have been the longest in the world.

Mr Lindahl describes the proposed cuts as an "an aggressive move which was ahead of the market". But analysts say it looks more like a reaction to south-east Asia's problems.

Freddie Hasslaner, of Sal. Oppenheim, the Zurich broker, says it highlights the fact that although developing country growth rates are higher than in OECD nations, so are the risks.

Simon Marsball-Lockyer, of NatWest Markets in Zurich, says ABB has set itself an aggressive target of a two-year payback period for its $850m charge. However, based on the improvements in its performance after its 1993 restructuring, when net income roughly doubled to over $1.2bn in 1996 in the space of three years, he is confident the group can achieve its targets.

It will be Mr Lindahl's responsibility to ensure that ABB does not fall sbort of its goal.

Sooner than seemed possible a few months ago, the new chief executive has been forced to prove that he is a worthy sneccessor to tbe much-respected Mr Barnevik. The next 12 to 18 months could be crucial to Mr Lindahl's reputation.

Stefan Wagstyl and William Hall

Lower Saxony to support VW offer

By Graham Bowley in Frankfurt

The German state of Lower Saxony, the biggest shareholder in carmaker Volkswagen, said yesterday it would buy shares in VW's controversial DM6bn-DM8bn ($3.4bn-$4.5bn) capital increase.

The move signals the state'a determination to retain its strong influence over the carmaker, which is the biggest employer in Lower Saxony.

The statement, announced after a meeting of the state government's cabinet, ends a period of uncertainty over whether the region would allow its shareholding in VW to be diluted.

However, the government gave no details yesterday of bow mnch of the new share offering it would seek to buy. It remains unclear whether it will try to maintain the 20 per cent stake it currently holds.

In a statement, it said it did not want its influence over the carmaker to be reduced, and it wanted to secure jobs at the VW plants in Lower Saxony.

VW surprised investors last month when it unveiled plans to take advantage of tbe strong rise in its share price by issuing 6m new shares. At tbe time, the company said it wanted to use the money raised, expected to be between DM6bn and DM8bn, to finance international expansion.

However, the vague explanation given for the share issue angered investors and analysts, who had not expected VW to make a capital increase this year.

As a result, VW's announcement, which coincided with a string of other share issues by several large German companies, bas been blamed for the poor performance of the German stock market since the end of the summer.

Lower Saxony's announcement yesterday may take some pressure off the rest of the stock market.

VW suggested last month tbat Lower Saxony would not participate fully in the sbare offering, since it would be too expensive for tbe state. However, Gerhard Schröder, the powerful premier of Lower Saxony – who is also a member of the VW supervisory board and a possible contender against chancellor Helmut Kohl in next year's national elections – has since indicated that the state's stake sbould not be diluted.

There had been fears that Lower Saxony would bold back VW's expansion plans because it did not want to dilute its shareholding.

VW announced in September that half the new shares would be issued through a rights issue while half would be sold through a placement with new investors.

Bosal doubles capacity in US

By Peter Marsh

Bosal, one of Europe's leading makers of exhaust systems for cars, is donbling its US manufacturing capacity in a move to challenge the dominance of the two main US producers.

Bosal is building a new plant in Warren, Michigan, which will develop and produce exhausts for General Motors, as well as supply products in the large US "aftermarket" for replacement car parts.

The privately-owned company, which is based in Belgium, is looking to take market share from Arvin and Tanneco of the US, whicb are the biggest suppliers in the world's $150bn a year exhausts systems market.

Bosal has annual sales of more than DM1bn ($565m), 70 per cent of this from exhausts.

It is thought to be the world's third biggest maker of "aftermarket" exhausts, behind Arvin and Tenneco, though it has a weaker position in the "original equipment" part of the industry.

In its plans for its new $7m factory in Warren – which will add to an existing plant in Lavonia, Georgia – Bosal is hoping to build on existing ties with GM.

Bosal has recently signed a contract with GM to supply DM60m worth of exhausts a year to plants in Spain, Portugal and Mexico for the new Opel Corsa.

The Warren plant will be Bosal's 33rd factory around the world, most of which are in Europe.

It has other plants in Mexico, Canada and South Africa.

In addition to exhausts, it makes towbars, roof racks for cars and cabs for agricultural vehicles.

Mr Karel Bos, chairman of Bosal, said North America was a "growth opportunity" for the company.

Adding sales in the US would help Bosal over the next few years to achieve a "better balance" in its worldwide revenues, 75 per cent of which come from Europe.

Mr Bos wants gradually to reduce this percentage, as the company builds up in other parts of the world.

Bosal is estimated to account for between 5 per cent and 10 per cent of the US exhaust market, incloding new cars and the aftermarket, while Arvin and Tenneco between them have about half.

"I don't waste my time guessing numbers – there is a large market there and we are going for it," said Mr Bos, 69, who has been in charge of Bosal since 1970.

The company which was started by Mr Bos's father in 1923, is owned by family trusts.

EUROPEAN NEWS DIGEST

Wallenbergs sell TV stake

Investor, the main investment vehicle of Sweden's Wallenberg industrial empire, is selling its holding in TV4, the Swedish terrestrial commercial television station, to Aamulehti, the Finnish media group, and MTV, Finland's largest commercial television channel, for SKr710m ($93.4m). The sale marks a strategic shift for Investor, which had media as one of its favoured growth sectors. It increased its stake in TV4 as recently as last year.

However, Claes Dahlbäck, Investor chief executive, suggested the company lacked the "deep knowledge and commitment" necessary to succeed in the sector. Investor has been widely expected to review its portfolio following the appointment of Percy Barnevik as chairman this year.

Meanwhile, Marita Ulvskog, Sweden's media minister, suggested yesterday that the TV4 sale would increase concentration of media ownership in Sweden because Aamulehti is 28 per cent owned by Marieberg, one of two dominant Swedish media groups. Marieberg will control about 40 per cent of TV4. Ms Ulvskog warned the deal could have legislative implications and could affect the renewal of television operators' licences.

Investor will make a SKr437m capital gain from the disposal of its 21.5 per cent bolding. Aamulehti will acquire a 16.5 per cent stake; MTV will take 5 per cent. The two Finnisb companies are expected to merge next year to form a new group called Alma Media Corporation.

Greg McIvor, Stockholm

■ CENTRAL EUROPE

Budapest SE listing for fund

The Central European Growth Fund, managed by Credit Suisse Asset Management, is set to become the first foreign-registered investment fund listed on the Budapest Stock Exchange. Trading in Budapest of CEGF global depository receipts – where one GDR equals 10 shares – is scheduled to begin next week, the fund said yesterday. Managers also plan to introduce the first warrants on the Budapest bourse, probably later in the year, once regulations are in place.

The CEGF, registered in Cardiff, Wales, in 1994, has a net asset value of $300m. The fund targets Central and Eastern Europe excluding Russia, and is 84 per cent invested in Poland, Hungary and the Czech Republic. Managers said the listing would offer local investors a simple way of diversifying portfolios. Tha fund also plans to list in Prague and Warsaw early next year.

Kester Eddy, Budapest

■ POLAND

Strong debut for PBK shares

Shares in Poland's Powszechny Bank Kredytowy (PBK) rose 13 per cent on the institutional sale price on their first day of trading yesterday – they reached 80.5 zlotys tn value the country's sixth largest bank at 1.7bn zlotys ($500m). Trade in the shares accounted for almost 30 per cent of the Warsaw Stock Exchange's 197m zlotys turnover yesterday. The surge in PBK's price gave small investors, who paid 65.5 zlotys, a 23 per cent premium.

This latest sell-off has put the share of the WSE's 46.4bn zlotys capitalisation accounted for by banks at 35 per cent, reflecting a government drive to privatise the sector.

The start of trading set the scene for a battle for control of PBK, which is seen by Creditanstalt of Austria as a vehicle for its expansion into central Europe's largest banking market. Creditanstalt paid $59m for a 13 per cent stake this month, and is expected to try to increase its holding.

Meanwhile, Poland's Kredyt Bank, which also bought 13 per cent, has sold a 7 per cent stake to the Warta insurance company, another 13 per cent shareholder in PBK. Creditanstalt has the choice of negotiating with Kredyt Bank for more stock or making an offer to foreign institutional investors, wbo were sold 10.5 per cent of PBK.

Christopher Bobinski, Warsaw

■ ARMSTRONG WORLD INDUSTRIES

Domco bid resurrected

Armstrong World Industries, of the US, yesterday resurrected its controversial bid to take over Domco, of Canada, in response to the creation of the world's biggest floorings group.

Domco – a division of Sommer Allibert of France, which is merging with Tarkett of Germany – had argued Armstrong's proposed takeover would be ruled out on anti-trust grounds.

However, Armstrong said yesterday it had received clearance from the US Federal Trade Commission. It also said it had begun legal proceedings against Sommer and Marc Assa, its chief executive, in a Pennsylvania court. The US group is seeking an injunction to stop Sommer's merger with Tarkett.

Sommer and Tarkett this week agreed the details of their merger, which will create a flooring business with sales of about DM2.6bn ($1.47bn) a year. However, Armstrong is pressing ahead with its bid for Domco and its legal action in an attempt to disrupt the tie-up.

Armstrong claims that Sommer breached a confidentiality agreement made during earlier discussions between the two over a possible link-up. It claims that Sommer used tha information to structure its merger with Tarkett. Armstrong said yesterday the FTC had said it would not challenge the US group's proposed acquisition of Domco, or any part of it, and would close its investigation.

Graham Bowley, Frankfurt

■ PHARMACEUTICALS

Elan buys out Warner Lambert

Elan Corporation, the Irish-based drugs company 80 per cent owned by US institutions, yesterday strengthened its presence in the UK and Ireland, buying out the controlling interest held by Warner Lambert in Elan Pharma and Parke-Davis/Elan.

In a related deal, Elan, which makes drug delivery systems to help absorption rates and reduce side effects, agreed with Rhone Poulenc Rorer to acquire Univer and Nifensar, hypertension products which will add "in excess" of $15m in annual revenues.

The moves come as the company announced third-quarter net income up 61 per cent from $28.5m to $46.1m. The results were boosted by the first-time contribution from Athena Neurosciences, the US drug company acquired in 1996. Elan achieved a 46 per cent increase in product sales to $54.9m. Research revenues were flat at $18.4m, whila royalties and fees were up 15 per cent to $31.6m.

John Murray Brown, Belfast

■ RUSSIA

US facility for Alfa Bank

Alfa Bank, Russia's ninth largest private bank, yesterday kicked off the first US commercial paper programme by a Russian borrower.

The proceeds of the $50m facility, which attracted commitments from 27 US and overseas banks, will be used to support Alfa's trade finance activities. The facility was priced at a risk participation fee of 3.70 per cent a year.

The one-year letter of credit facility was arranged by Alfa Bank and the Bank of America. Alfa Bank became the second Russian bank to tap the eurobond markets earlier this year with a $175m offering.

Edward Luce

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Third-quarter results from Philip Morris and RJR Nabisco in line with analysts' expectations

Legal costs take toll on tobacco groups

By Richard Tomkins in New York

Philip Morris and RJR Nabisco, reeling from pay-outs to settle litigation against the US tobacco industry, yesterday reported big falls in net profits for the third quarter.

Philip Morris, the biggest US cigarette maker, suffered a 15 per cent fall in net earnings to \$1.4bn after charges for the first instalments of an \$11.3bn settlement with Florida and \$3.6bn with Mississippi.

RJR Nabisco, the second biggest tobacco company, saw an even bigger fall in net profits, from \$216m to \$114m, because it also saw poor underlying performance from its tobacco business.

For Philip Morris, the results were the worst since the quarters following Marlboro Friday, the day in 1993 when it slashed the price of its premium Marlboro brand in the US to regain market share from cheaper brands.

But Wall Street was unperturbed by the charges because they were seen as a necessary to end the threat of litigation by securing a tobacco accord in Congress.

Philip Morris's earnings per share were down 13 per cent at 58 cents a share, in line with expectations, and RJR Nabisco's tumbled from 66 cents to 34 cents, 1 cent below analysts' forecasts.

Excluding the charges, Philip Morris turned in a good performance. Operating profits from the domestic tobacco business increased 13 per cent to \$1.2bn, partly because of price increases and partly because wholesalers stocked up in anticipation of further price rises.

Philip Morris's international tobacco business was hit by the dollar's strength, but still managed to increase operating profits by 10 per cent to \$1.2bn on the back of a 7 per cent volume increase.

Kraft Foods North America, Philip Morris's domestic food business, increased operating profits by 11 per cent to \$687m, but Kraft Foods International saw an 11 per cent decline to \$260m. Miller Beer produced a 7 per cent increase to \$125m.

RJR Nabisco, suffering from the strong dollar and weak demand for domestic brands, saw a 3 per cent decline in tobacco operating profits to \$577m. The separately-quoted Nabisco food business, which reported the previous day, did better, increasing operating profits by an underlying 7 per cent to \$301m.

Improved occupancy benefits Hilton

By Richard Tomkins

Hilton Hotels yesterday reported a jump in net profits from \$54m to \$94m for the third quarter, helped by a strong performance from the hotel side of the business and last year's \$2bn all-stock acquisition of Bally Entertainment, completed in late December.

Earnings per share rose by 29 per cent to 36 cents, in line with market expectations.

The company said it did not want to comment on Starwood Lodging's bid for ITT until it had studied the proposal.

Hilton has tendered \$70 a share for ITT, and had previously said it would not increase its offer.

Like ITT, which reported last week, Hilton benefited from higher occupancy levels and increases in room rates at its hotels.

The overall occupancy level for the hotel division was 77.7 per cent, up from 76.8 per cent last time, and the average daily rate rose by 7 per cent to \$138.43. This lifted the division's operating profits by 57 per cent to \$113m.

But if the Bally's properties had been included a year earlier, the gambling side of the business would have been slightly down. Hilton blamed an abnormally low win percentage at the Las Vegas Hilton, tough competition on the Las Vegas Strip and a generally soft summer.

White knight checks into Sheraton

Starwood's agreed bid for ITT puts it on course to be world's biggest hotel group

A small US company that few people have heard of usee its highly-rated paper to bid for a famous company several times its size. Sounds familiar?

No, it is not WorldCom's \$30bn bid for MCI. This week, it is Starwood Lodging, the small but fast-growing hotel company that has unexpectedly appeared as a "white knight" to rescue ITT from the clutches of Hilton Hotels.

On Monday, Starwood announced an \$82 a share agreed bid for ITT, comprising \$67 in newly-issued Starwood shares and \$15 in cash.

The offer values ITT at \$9.8bn – much more than the \$8.3bn offered by Hilton with its \$70-a-share hostile bid, half of which is to be paid in cash up front and the other half in Hilton stock.

It is some measure of ITT's desperation to thwart Hilton's bid that ITT, a company with a 77-year history, has agreed to sacrifice itself to a Starwood takeover, and that Rand Araskog, ITT's 65-year-old chairman and chief executive, will give up both roles in the combined company.

But Mr Araskog has demonstrated a deep antipathy towards Hilton ever since Stephen Bollenbach, Hilton's high-flying chief executive, launched his unsolicited offer in January.

He has refused all of Mr Bollenbach's requests for a meeting, and tried every means at his disposal to outmanoeuvre his rival.

In July, Mr Araskog put forward a plan for ITT to split itself into three and buy back 26 per cent of its stock at \$70 a share. Last month, however, a Nevada court ruled that ITT could not pursue the plan without shareholders' agreement.

It was not at all clear that shareholders would prefer ITT's plan to a Hilton takeover: so, with a proxy fight looming at ITT's annual meeting on November 12, ITT had to search for other options to elude Hilton's grasp.

The one it has chosen will see ITT's Sheraton hotel subsidiary merged into Starwood to form a chain of 650 hotels in 70 countries operating under the Sheraton, Westin and Ciga names, among others.

Starwood will also get ITT's Caesars casino chain, ITT Directories and ITT Educational Services.

Behind Starwood's ability to pay a high price for ITT is Starwood's unusual status as a "paired share" investment trust.

Each of its shares actually represents a share in each of two companies: a real estate investment trust, or REIT, called Starwood Lodging Trust, and an operating company that manages property, called Starwood Lodging Corporation.

REITs are quoted investment pools that raise money for real estate ownership, but are not allowed to manage the properties they own. They pay no corporate income tax, but instead are required to distribute at least 95 per cent of their net income to shareholders.

Exploiting a legal loophole, a very small number of REITs found a way round the curb on property management by pairing themselves with operating companies under common ownership.

Under this arrangement, the REIT could pay its own operating company to manage the properties instead of someone else, and the enterprise could be structured to maximise the value of the REIT's tax-exempt status.

That loophole was closed years ago, but Starwood – then called Hotel Investors Trust – was one of four "paired share" REITs that were allowed to keep their status.

Its rapid rise began when Barry Sternlicht, now chairman and chief executive, took it over in 1995 and renamed it Starwood.

Starwood's share price has soared as Mr Sternlicht has used the company's structure to make acquisitions.

Last month it announced a deal to buy Westin Hotels & Resorts, an upmarket US hotel chain, from an investment group for \$540m in cash and securities as well as \$1.03bn in assumed debt.

Early retirement: Rand Araskog's deal with Starwood Lodging will net him \$55m and a seat on the board AP

If Starwood's latest deal wins the day, it will catapult Mr Sternlicht's entsrprise from a market capitalisation of about \$3.5bn before the Westin acquisition to one of about \$20bn post-ITT, making it the world's biggest hotel company in terms of market value.

For Mr Araskog, the deal will mean a retirement he had not sought.

But he is getting a \$55m pay-off as well as a seat on Starwood's board.

And sitting next to Mr Sternlicht in an interview, he said: "I kind of like this guy. I think this is really going to work."

Richard Tomkins

CONTRACTS & TENDERS

Brazilian electricity bids beat forecasts

By Jonathan Wheatley in São Paulo

The appeal of Brazil's electricity industry to foreign utility groups was demonstrated again yesterday, when two distribution companies in the southern state of Rio Grande do Sul were sold for amounts in excess of their minimum prices and market expectations.

AES, of the US, paid R\$1.51bn (US\$1.37bn) for 90.9 per cent of Companhia Centro-Oeste, which serves the centre-west region of the state. The bid represents a premium of 93.7 per cent above the minimum price and follows AES's participation in a consortium that last year bought control of Light, a Rio de Janeiro distributor.

A consortium formed by Community Energy Alternatives, of New Jersey, with local groups Votorantim, Bradesco and Camargo Corrêa, paid R\$1.635bn – 82.6 per cent more than the minimum price – for 90.8 per cent of Companhia Norte-Nordeste, which covers the north-east of the state. The two sales took place in consecutive sealed-envelope auctions.

"This was a big surprise – we expected a premium for both companies of at most 50 per cent," said Alexandre Fernandes, an electricity industry analyst at Bozano Simonsen, a Rio de Janeiro investment bank.

He said the buyers may have been encouraged to submit higher than expected bids because of the possibility of buying cheap electricity from neighbouring Argentina and Uruguay.

The sales mark the start of a busy period for electricity privatisation in Brazil. The state of São Paulo plans to sell CPFL, one of its two distributors, for a minimum of R\$2.1bn on November 5. Four smaller distributors will follow by the year-end.

AMERICAS NEWS DIGEST

Microsoft, IBM beat forecasts

Technology investors returned to the market yesterday after Microsoft and International Business Machines, the largest computer software and hardware makers respectively, beat analysts' expectations with their quarterly results. Microsoft, which also benefited from a more considered view by analysts of its dispute with the Department of Justice, rose \$6¼ to \$104¾ in morning trading, while IBM added \$3⅞ to \$136.

The results, which came with the market anxiously marking the tenth anniversary of the 1987 stock market crash, lifted other technology stocks. The Nasdaq composite index climbed 19.73 to 1705.18 in early trading.

Microsoft reported a 53 per cent jump in net income, excluding an acquisition charge, for its first quarter ended September 30. Net income of 72 cents a share was 2 cents above the consensus of Wall Street estimates.

After a \$296m charge for the acquisition of Web TV, an internet access venture, Microsoft reported net income of \$663m, or 50 cents a share, compared with \$614m, or 47 cents, in the same period last year. Revenues of \$3.13bn were up 36 per cent from \$2.30bn a year ago.

IBM's third-quarter net income was up 12 per cent at \$1.4bn, or \$1.38 a share, compared with \$1.3bn, or \$1.23 a share, in the same period last year. That compared with analysts' estimates of about \$1.36 a share. Revenues grew a modest 3 per cent to \$18.6bn.

See Lex and World Stock Markets

Louise Kehoe and Nicholas Denton in San Francisco

■ INVESTMENT BANKING

Salomon surges to \$206m

Salomon, the US-based investment banking firm due to be acquired by Travelers Group, yesterday maintained its long tradition of defying analysts' expectations to the end, when it reported earnings per share of \$1.66, substantially beating analysts' estimates of \$1.47. Salomon's shares rose \$2⅛ to \$83⅜ in early trading.

Net income for the quarter of \$206m from continuing operations was up from \$140m in the same period last year. However, for the first nine months, net income was \$599m, lower than net income from continuing operations of \$748m last year. Fully diluted return on equity for both the quarter and the year to date was a little above 15 per cent.

Salomon will be combined with Travelers' Smith Barney to form Salomon Smith Barney Holdings. Bob Denham, Salomon's chairman, said yesterday that he expected proxy materials in connection with the transaction to be distributed to Salomon shareholders shortly.

Mr Denham described the firm's third quarter performance as "very solid". Global investment banking revenues of \$233m were up 25 per cent over last year's third quarter, thanks to strength in Salomon's advisory and debt underwriting businesses. Fixed income sales and trading revenues were \$751m, compared with \$598m a year ago, reflecting strong customer sales and strong proprietary trading results.

Equity sales and trading revenues were \$96m, compared with a loss of \$26m in the same period of the previous year. However, the firm made an unspecified loss on a risk arbitrage position in British Telecommunications and MCI, which has been largely liquidated. The firm said it also lost money on long-term proprietary equity strategies. Phibro, its commodity trading business, reported net revenues of just \$16m, compared with \$36m a year ago. Asset management revenues were \$17m compared with \$13m a year ago. *Tracy Corrigan, New York*

■ AUTOMOTIVE INDUSTRY

Goodyear and Tenneco advance

Cost-containment coupled with increased sales volumes both in North America and overseas helped Goodyear, the Ohio-based tyre company, to post third quarter profits of \$194.1m, or \$1.25 a share, up by just over 14 per cent from last time's \$170.2m. Sales increased to \$3.32bn, compared with \$3.27bn in the same period of 1996.

The result brings Goodyear's profits for the first nine months of the year to \$556.7m, compared with \$509.9m previously. Unit sales for the core tyre business were 7.4 per cent higher in the third quarter, with Goodyear saying that the increase was spread across both the original equipment and replacement markets.

Meanwhile, Tenneco also reported strong third-quarter results, with profits for continuing operations rising to \$105m, compared with \$76m. This brought results for the first nine months to \$285m, compared with \$254m a year ago, although these numbers include some one-off items.

Tenneco said that its automotive business posted a sharp 46 per cent jump in third quarter operating profits, at \$119m, on revenues three per cent higher at \$785m. On the packaging side, the group saw operating profits rise by 26 per cent, to \$107m, on a 17 per cent sales gain, at \$1.045bn.

Both companies' results matched the average of analysts' forecasts, and their shares eased in early trading. *Nikki Tait, Chicago*

■ RESTAURANTS

Berkshire in Dairy Queen offer

Berkshire Hathaway, the Omaha-based investment company run by Warren Buffett, yesterday made a \$585m offer for International Dairy Queen, the Minneapolis-based group which licences and services a chain of Dairy Queen restaurants across North America and internationally. The offer is being backed by the Mooty family which owns much of Dairy Queen's stock and runs the business. John Mooty, chairman, said that the family would be vote its 35 per cent interest in the company in favour of deal, and would take Berkshire Hathaway shares as consideration.

The terms of the offer are either \$27 per Dairy Queen share in cash or \$26 in the Berkshire Hathaway stock. But Mr Mooty said that the family was not interested in other forms of consideration: "We are not interested in trading our Dairy Queen shares for any other securities," he said. The family, he added, anticipate holding its Berkshire shares "indefinitely".

In a statement, Mr Buffett said only that Dairy Queen was "a business that I like", although he also praised its management.

The Minneapolis-based company licences and services more than over 5,790 Dairy Queen stores in the US, Canada and overseas. In the first half of 1997, its sales were around \$204.8m, and after-tax profits, including a one-off item, \$18m. The company's shares were halted just before the announcement of the offer, at \$25⅜. *Nikki Tait*

■ TELECOMS

Northern Telecom ahead 37%

Northern Telecom, the Canadian telecommunications equipment manufacturer, said yesterday that third-quarter net earnings jumped 37 per cent over last year to US\$153m, on higher sales volumes. Revenues reached US\$3.5bn, up 15 per cent.

The company said overall revenues increased in all geographic areas and in three of its four product lines, which include wireless networks, broadband networks, public carrier networks and enterprise networks. Sales of public carrier networks fell substantially in the Asia-Pacific region and the company's enterprise networks revenues decreased due to the disposition of the distribution system for some of the company's products.

Scott Morrison, Vancouver

Third-quarter profits at £385m after sterling's strength takes off £42m

Strong US sales support SmithKline

By Daniel Green

The strong pound took more than £42m ($68m) from third-quarter pre-tax profits at SmithKline Beecham, and depressed sales to below last year's level.

Turnover at the Anglo-US pharmaceuticals company fell 3 per cent from £1.98bn to £1.92bn, while pre-tax profits rose 3 per cent from £374m to £385m. Excluding exchange rate movements, turnover would have risen 7 per cent and pre-tax profits 14 per cent.

Jan Leschly, chief executive, said there was a "strong underlying performance", but currency movements had reduced profits for the first nine months by 11 per cent. He said that since sterling began to strengthen in the final quarter of 1996, the effect would be only about 9 per cent for the full year.

Tha shares rose 8p to 608p.

US drug sales, up 21 per cent, were the main factor behind the group's underlying growth. Drug sales overall grew 16 per cent, held hack hy difficulties in Europe, especially in France.

Mr Leschly said US growth of 21 per cent was unlikely to be sustained, forecasting only that sales would grow at "double-digit" percentage rates.

The US performance contributed to a total pharmaceuticals sales rise for the quarter of 7 per cent to £1.12bn, including the diversified division, which manages pharmacy insurance claims.

The company again showed the strength of its new pharmaceutical products, those launched within the past five years, where sales grew 41 per cent. These drugs include the anti-depressant Seroxat/Paxil, which Mr Leschly said had overtaken sales of Zoloft, made by US rival Pfizer, and was second only to Eli Lilly's Prozac.

The other main division, Consumer Healthcare, lifted sales 5 per cent to £582m, excluding exchange rates. That compared with a strong third quarter of 1996, when US wholesalers stocked up ahead of the launch of Nicoderm CQ, the stop-smoking aid.

Of SmithKline's smaller operations, Clinical Laboratories, which has suffered for several years largely through competition, raised sales by 9 per cent to £213m.

The trading margin was 21.1 per cent, up 1.3 percentage points on an underlying basis, owing to improved margins in Consumer Healthcare, Clinical Laboratories and Diversified.

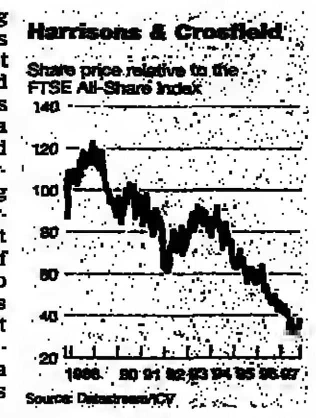
SmithKline also said it was the subject of 60 lawsuits in the US relating to slimming drugs following withdrawal from the market of Redux, made by American Home products. Mr Leschly said the suits would have "no material effect" on SmithKline's finances, because the drug Fastin was chemically different from Redux and was labelled not to be used with it.

Ashley Ashwood

Jan Leschly: is confident the US lawsuits will have 'no material effect' on finances

LEX COMMENT

Harrisons



It has been a painful slog for investors in Harrisons & Crosfield, hut at least the gruh born of the old conglomerate moth has come through the pupa stage. Harrisons destroyed shareholder value by over-diversifying, overpaying for acquisitions and over-distrihuting dividends. It âchieved the first part of its rebirth a few years ago by selling its plantations and wiping out debt. But it has taken helated board-room change to produce a clear view of where it is going.

The group has now plumped for focus without reservation. Three legs will become one – chemicals – and cash will be returned to shareholders. The company has gained credit for selling Harcros at 21 times last year's, albeit depressed, operating profits. And returning proceeds in a tax-efficient way wins further points. One sensible outcome is likely to be a sharp dividend cut.

The chemicals business made operating profits of £56m last year. Taking this as a conservative level for 1998, applying an average chemicals sector multiple of 13 times and adding in the 50p distribution would justify a share price a little below 120p.

Selling the food and agrihusiness could yield 30p a share on top. But this will take a while, which partly explain the discount in the 134½p closing price. The other reasoo is a residual shortage of management credibility. To put this right, the next wave of proceeds will have in be spent well, or at least partly handed back to shareholders.

Ticket to fly without the thrills or frills

Charis Gresser considers the growth of a new breed of short-haul budget airline in Europe

Air travellers in Europe are heing weaned from a sweet and sour diet of air-miles, special lounges, smart(ish) uniforms and high prices.

Nearly 10m a year are swallowing the no-food, no-frills offering of Europe's latest breed of entrepreneurs: founders of low-cost airlines. But will the market digest the shares of these carriers?

Virgin Express will be the third European low-cost airline to tap the equity markets. Details of the flotation, in Brussels and New York, will emerge from the filing of financial documents with the US's Securities and Exchange Commission.

Ryanair, operating out of Dublin, was the first to kick aside its chocks with a flotation in May valuing it at some £300m. US institutions scrambled for the stock, familiar with a concept pioneered by home-grown airlines like Texas-hased Southwest Airlines. As a result the share price has douhled in four months.

Dehonair's stock market take-off was more low-key. Floated three months ago on Easdaq, Europe's answer to the US's Nasdaq, the shares have risen a more modest 17 per cent. But then, given the airline was only a year old and boasted just seven aircraft, some analysts were surprised it made it to market at all. "For the first time in Europe, airlines are where venture capital meets the markets. This may seem ground-hreaking in Europe, but it's fairly normal in America," says one.

What is also ground-breaking is that low-cost airlines can actually make good money flying short-haul across continental Europe. Ryanair made I£24.5m ($36m), pre-tax profits in the year to March 31 on turnover of I£136m. Virgin Express currently makes a small profit, having reached hreak-even last year. This is a far cry from Europe's established carriers, headed by British Airways, Lufthansa, Air France and Iberia, which use their European scheduled flights to feed their far more profitable long-haul flights. BA, for instance, made a paltry £6m on turnover of £3bn from its European flights.

But how do they do it? And how long do the likes of Virgin Express, Debonair, Ryanair and EasyJet have before the leading operators start to fight back?

Low-cost airlines are, predictably enough, all about squeezing costs. As EasyJet's founder, Stelios Haji-Ioannou, is fond of reminding his customers: "If yon want to have a meal, go to a restaurant." So passengers on his flights from the UK to Nice, Amsterdam and Barcelona, are fed jokes instead.

They also have to make do with recycled hoarding passes; no fancy first, cluh or husiness classes, and they have to trek out to secondary airports like Luton. But then they also fly "for the price of a pair of jeans", as EasyJet's releotless marketing machine says.

By flying out of secoodary airports, the airlines also save significant costs from landing charges and ohtain take-off and landing slots unavailable at more prestigious airports. Landing charges can account for up to 10 per cent of costs.

Few numbers are publicly available, but Virgin estimates its overall costs are probably about 25 to 50 per cent cheaper than the unwieldy former state-controlled carriers against which it competes.

The other secret of these airlines' success is picking the right fights. Some carriers, such as Ryanair, have avoided direct competition with any large airlines. Many of its routes from Dublin to UK cities such as Glasgow, Leeds, Cardiff, and Bournemouth were underdeveloped hefore Ryanair took them on. Morgan Stanley analyst Matthew Stainer says Ryanair has created more of a market than it has taken away from the traditional airlines.

When the low-cost airlines do go head-on, they go for the fat underbelly of Europe's most unwieldy airlines. In a back-handed compliment to BA, Virgin Express says bluntly that the core of its husiness is not based on a UK strategy.

Instead, it has gone for Sabena, the Belgian carrier. Sabena responded by cutting a deal with Virgin Express wherehy the latter flies Sabena customers into London, using Sabena's access to scarce slots at Heathrow.

"It's competition by running away," said one analyst caustically. Other airlines, such as BA, have responded by franchising some of their short-haul routes to other airlines.

The prohlem with this strategy, say soms analysts, is that they will probably not stay low-cost, because if passeogers fly oo a franchisee's BA flight, they still expect peanuts and gin and tonics.

So, for the short term at least, the outlook is buoyant. European air traffic in August rose more than 11 per cent on the same month the year before. Low-cost airlines are being welcomed into the equity markets, enabling them to fund their expansion of routes.

But the airline market has a way of springing nasty surprises. So far, the current European hoom is a close replica of the US model of some 20 years ago. That is, deregulation followed by entrepreneurs setting np airlines. If Europe continues to follow the US template, however, there will be plenty of bankruptcies and consolidation before the market settles down.

Harrisons holders to receive £359m

By Andrew Taylor, Construction Correspondent

Harrisons & Crosfield plans to return at least £359m ($581.6m) to shareholders after selling building materials and agriculture interests.

The group, which intends to change its name to Elementis, will concentrate on its remaining speciality chemicals interests where it is a world leader.

Bill Turcan, chief executive, said the conglomerate had agreed to sell Harcros, its huilders merchants and timber subsidiary, for £318m to Meyer International. The deal will double Meyer's share of the UK builders merchants market to 12 per cent, making it the sector leader. To pay for the acquisition, Meyer plans to raise £111.7m, from a 1-for-4 rights at 360p. The remainder will be financed through debt.

Harrisons also plans to dispose of its food and agriculture husinesses, which could raise a further £240m from net assets in the books at £270m.

Mr Turcan said the group planned to return at least 50p a share to investors following the disposals.

Last week it announced plans to sell its US builders' merchant business to Moore's Lumber in the US for abont $63m.

US growth behind Wolseley rise

By David Blackwell

A strong performance in the US helped Wolseley, the world's largest distributor of heating and plumbing equipment, to lift pre-tax profits last year by almost 9 per cent.

John Young, who took over as chief executive just over a year ago, said the US economy had continued to be strong and, for the first time, the US had sccounted for more than half the group's profits.

He warned that the rate of growth in the US might be difficult to sustain this year – "but we still expect to see growth."

Pre-tax profits for the year to July 31 were at the top of expectations at £264.2m ($428m) against £242.9m. The figure was struck after losses of £3.4m from discontinued husinesses and an adverse currency effect of £13.1m.

Currency translation also knocked £233.7m from turnover of £4.6bn (£4.3bn). At constant exchange rates, the group is expecting another currency hit on profits of about £3m in the first half.

Analysts upgraded forecasts for the current year hy £10m to £295m. The shares eased 20p to 515p.

The group spent £103m on acquisitions during the year. Borrowings rose 10 per cent to £65.8m, leaving gearing unchanged at 7.8 per cent.

Mr Young said scquisitions would continue, hut they would have to make the right returns over time. The low level of borrowing gave the group "flexibility".

All three divisions – US distribution, European distrihution, and manufacturing – showed growth. Outside the UK, where Wolseley Centers reported organic sales growth of 7.5 per cent, European markets continued to be difficult.

Brossette in France reported flat sales and profits, while the group closed four branches and withdrew from the east German market.

Debut bond issue for Railtrack

By Edward Luce

Railtrack, the privatised UK rail company, yesterday made an aggressive debut in the international bond markets with the first of what is expected to be many offerings to help fund its £10bn ($16.2bn) investment programme.

The 25-year bond will also refinance a portion of its £2.4bn bank debt, some of which was left over from its days as part of the state-owned British Rail. It is expected to be followed up by annual visits to the sterling bond market, say executives of the company, which owns and operates the infrastructure of the railways.

Yesterday's £300m offering was the first bond to be issued by a privatised portion of the former British Rail. Privatised UK ntilities, including British Telecommunications and companies in the water and electricity sectors, have been prolific borrowers at the louger-maturity end of the sterling bond market.

The company, which was yesterday awarded a credit rating of AA- from Standard & Poor's, the US credit rating agency, intends to upgrade Britain's rail infrastructure over the next decade. Ralltrack was floated on the London stock exchange in May 1996 as part of the privatisation of British Rail. It has a £5bn market capitalisation.

BT invests $20m in ICO Global

By Alan Cane

British Telecommunications is investing $20m to become the fiftieth shareholder in ICO Global Communications, one of a number of consortia competing to develop hand-held global satellite telecoms services.

It is one of a number of new and existing investors who have committed a further $225m to the $1.7bn the venture has already raised.

ICO and its competitors are investing hillions of dollars to place networks of satellites in low earth orhit. They will he capable of receiving and delivering telephone calls from anywhere to handsets no larger than todsy's mobile phones.

ICO, a private company, was set up through Inmarsat, the pioneer in satellite communication services, for maritime and aeronautical industries.

Alfred Mockett, managing director, BT Global Communications, said joining forces with ICO would add to BT's mobile services portfolio. "Global personal communications is an exciting new industry and BT is keen to play an important role in the distrihution of these products and services".

The consortia competing include Iridium, led hy Motorola of the US, GlobalStar and Odyssey. Iridium already has about half the 66 satellites it will need for global coverage in orbit.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airflow Streamline	6 mths to Aug 31★	58.1	(50.5)	5.66♥	(1.16)	60.43	(8.81)	2	Jan 8	2	-	8
Betacom	Yr to June 30	43.1	(18)	1.66	(0.608)	2.12†	(0.86)	0.3	Dec 5	nil	0.5	nil
Boxmore	8 mths to June 30	50.9	(45.3)	8.56	(7.62)	8.24†	(7.6)	1	Dec 2	0.91	-	3.01
Charlton Athletic⌽	13 mths to June 30§	4.33	(3.89)	0.254	(1.16L)	1.57	(-)	-	-	-	-	-
David Brown	6 mths to Aug 1	91.8	(90.8)	7.93♠	(8.73)	8.3†	(9)	2.9	Nov 21	2.65	-	8.4
Fortune Oil	8 mths to June 30	216.9	(130.5)	2.28	(1.7)	0.14	(0.13)	-	-	-	-	-
Incepta	6 mths to Aug 31	43.1	(8.63)	2.55	(1.07)	1.04†	(0.62)	-	-	-	-	-
Oliver Ashworth	6 mths to July 31	41.1	(41.6)	1.95	(1.52)	6.53	(6.1)	1.65	Nov 24	nil	nil	1
On-Line ⌽	18 mths to June 30	0.504	(-)	0.115	(-)	4.5	(-)	-	-	-	-	-
Paterson Zochonis	Yr to May 31	350.3	(361)	30.2	(29.2)	43.09	(38.06)	11.7	Dec 2	13.35	17.2	18
Scott Metropolitan	Yr to Aug 15	20.3♦	(20.2♦)	7.47	(9.34)	4.2	(6.4)	1.8	Jan 6	1.65	3	2.75
SmithKline	9 mths to Sept 30	5,653	(5,778)	1,159	(1,103)	14	(13.5)	2.205‡	Dec 31	4	-	17.85
Tandem Group	8 mths to Aug 3	20.8	(33.8)	0.202L♥	(3.55L♠)	0.21L	(3.8L)	-	-	-	-	-
Wolseley	Yr to July 31	4,602	(4,314)	264.2	(242.9)	31.07	(29.18)	8.1	Jan 30	7.25	11.4	10.35

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
City Merchants	1 mth to Oct 30	-	(-)	-	(-)	-	(-)	1.75§§	Nov 27	-	-	10
Framlington Income	3 mths to June 30	-	(-)	-	(-)	-	(-)	1	Nov 14	1	-	5.15
Guinness Flight VCT	6 mths to Aug 31	94.79	(95.13)	0.318	(0.097)	1.57	(1.06)	1.1	Nov 28	0.8	-	1.9
M&G Equity	3 mths to Sept 30	84.48	(66.59)	1.81	(3.18)	0.83	(1.51)	0.95	Dec 19	0.88	-	4.76
M&G High Income	8 mths to Aug 31	13.17	(-)	0.818	(-)	2.07	(-)	0.96	Nov 28	-	-	-
Pennine Aim VCT 2	6 mths to July 31	112.7	(96)	0.052	(0.05)	1.1	(1.1)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ⌽Aim stock. ♦Net revenue. ★Comparatives restated. §Comparatives for year to May 31. ‡Third interim, including foreign income dividend of 1.225p (2.22p), making 11.025p (12p) so far. §§Special payment.

INTERNATIONAL CAPITAL MARKETS

Railtrack's first offer raises £300m

By Edward Luce

Railtrack, the privatised UK rail company, yesterday made an aggressive debut in the international bond markets with the first of what is expected to be many eurobond offerings to help fund its £10bn investment programme.

The 25-year bond will also refinance a portion of its £2.4bn bank debt, some of which was left over from its days as part of the state-owned British Rail. The issue is expected to be followed by annual visits to the sterling bond market, say executives of the company, which owns and operates the infrastructure of the railways.

Yesterday's £300m offering was the first bond to be issued by a privatised portion of the former British Rail. Privatised UK utilities, including British Telecom and companies in the water and electricity sectors, have been prolific borrowers at the longer-maturity end of the sterling bond market.

The company, which was yesterday awarded a credit rating of AA– from Standard & Poor's, the US credit rating agency, is investing £10bn to upgrade Britain's rail infrastructure over the next decade.

Railtrack was floated on the London stock exchange in May 1996 as part of the privatisation of British Rail. The company, which has a market capitalisation of £5bn, recorded income of £346m before tax in the year ending March 1997.

"We will be issuing more bonds as part of our long-term investment programme," said Norman Broadhurst, finance director.

Railtrack said the timing of the issue had been encouraged by the unusually low funding costs in longer-maturity bonds compared with the conventional bank loan market.

Borrowers tapping the longer end of the sterling bond market have seen funding costs drop sharply over the last few weeks. The yield on 30-year UK government bonds has fallen to just 6.53 per cent compared with a yield of 6.59 per cent on 10-year UK gilts.

This unusual situation, caused by high short-term interest rates leading to expectations of a much lower inflation rate in the future, is known as an inverted yield curve. In practical terms it gives the borrower access to very cheap long-term funding.

"We wanted to extend the maturity of our debt to match the life of our assets," said Mr Broadhurst. "We also wanted to take advantage of the competitive rates on offer at the long-end of the sterling bond market."

Officials at HSBC Markets, which jointly lead-managed yesterday's issue with Barclays, said that the bond was mostly bought by long-term UK investors such as pension funds and insurance groups.

Syndicate executives said that yesterday's bond, which was priced to yield a spread of 0.78 percentage points over equivalent UK government bonds, would act as a benchmark for future offerings.

Prices weaken on rate rise fears

GOVERNMENT BONDS

By Simon Davies and Alexander Stevenson in London and John Labate in New York

Both the UK and Germany produced surveys suggesting a pick-up in business confidence, sparking weaker bond markets yesterday in the face of fears over interest rate increases.

In Germany, the release of M3 figures yesterday morning was greeted positively, with money supply growth below expectations. However, the Ifo business survey showed surprisingly buoyant business optimism, increasing fears of another repo rate rise before the year-end.

This was exacerbated by comments from Hans Tietmeyer, Bundesbank president, who warned of the need for higher interest rates in the immediate aftermath of Emu if there are political compromises on Emu membership.

The December GERMAN BUND contract fell 0.29 to 101.69 on much higher volumes, with more than 169,000 contracts traded.

Huw Roberts, chief bond strategist at NatWest Markets, said: "I still think the repo rate will rise sooner rather than later. Mr Tietmeyer now seems to be singing from the same song-book as the hawks."

UK GILTS had a quiet day, after recent volatility stemming from an apparently more cautious government stance on Emu. Trading stayed within a narrow range and the December contract closed at 118$\frac{3}{32}$, down $\frac{7}{32}$ on less than half Monday's turnover. The yield spread against bunds narrowed by 3 basis points to 101 points.

The latest CBI survey provided more ammunition for those who argue that UK interest rates have yet to peak. Business optimism turned positive after the lapse in July, although exports remained depressed by the strong pound.

ITALIAN BTPs ended slightly lower as the December futures contract settled at 111.84, 0.04 down, while the spread over 10-year bunds tightened from 54 to 51 basis points, reversing Monday's move.

In the morning prices rose to 112.18 following comments by Antonio Fazio, governor of the Bank of Italy. However Dick Woodworth, head of research at Merrill Lynch, said Mr Fazio "appeared to be typically cautious and remained sceptical about inflation".

US TREASURIES were little changed after the release of data showing a wider than anticipated monthly trade deficit.

By midday the 30-year Treasury was unchanged at 99$\frac{1}{8}$, yielding 6.421 per cent. Two-year notes fell $\frac{1}{32}$ to 99$\frac{27}{32}$, yielding 5.886 per cent, while 10-year notes rose $\frac{1}{32}$ to 99¾, yielding 6.132 per cent.

August's trade deficit rose to $10.4bn. Exports were up 0.2 per cent to $78bn from July levels, while imports rose 0.6 per cent to $88bn.

"Exports would have been stronger had we not had a 0.6 per cent decline in aircraft exports, which was mainly from Boeing," said Joseph Liro, economist at CIBC Wood Gundy.

The results led economists to lower their estimates of third-quarter GDP figures.

"Exports will likely take off $10bn to $12bn from third quarter GDP," added Mr Liro, who expects a still robust 3.5 per cent growth in GDP for the quarter.

Morning remarks by Alice Rivlin, Federal Reserve vice-chair, helped spread a bearish mood, as speculation about a possible interest rate rise returned on renewed concern about tight labour markets.

● From today, the statistics on index-linked UK gilts published on this page will show projected inflation rates of 3 per cent and 5 per cent, rather than 5 per cent and 10 per cent, to reflect the moderation of UK inflationary expectations.

Canadian dollar debut by Mexico

INTERNATIONAL BONDS

By Samer Iskandar and Edward Luce

Activity picked up in the primary market yesterday, with a wide array of issues in various currencies.

Mexico announced the launch of its first bonds in Canadian dollars. The deal will be priced today, with a yield spread over Canadian government bonds in the region of 175 basis points.

Scotia Capital Markets, joint lead with Merrill Lynch, said it was the first global issue in Canadian dollars by a non-Canadian borrower and would appeal to both retail and institutional investors.

EIB – the European Investment Bank – launched the day's largest deal. Its DM1bn of bonds maturing in April 2004 were offered to investors with a yield of 4 basis points over equivalent German government debt.

"The pricing was spot-on," said Brian Mooyaart, director of Mooyaart, a bond pricing company which analyses bonds based on the pricing and performance of the most liquid benchmark issues.

FEDERAL FARM CREDIT BANK, the US agricultural agency, came to the eurobond market for just the third time with a $500m three-year offering callable after one year. Morgan Stanley, joint book-runner with Goldman Sachs, said the call option enabled FFCB to offer a higher yield than on a plain vanilla bond.

The yield was set at 37 basis points over Treasuries, compared with spreads of 10 or 12 points on standard three-year paper, according to bond specialists.

● EFES, Turkey's largest beer producer, completed its debut bond issue – the country's first dollar-denominated corporate bond. The $50m of five-year bonds were privately placed with US institutions through lead manager J.P. Morgan.

EFES is part of the Andalou Group, one of the country's largest conglomerates. It has 72 per cent of the Turkish beer market and is a Coca-Cola bottler.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
[illegible]							
Exim Bank of Japan	500	6.375	99.86R	Nov 2002	0.25R	+25(5⅝%Sep02)	Goldman Sachs Intl
Federal Farm Credit Bank(a)	500	6.33#	99.886R	Nov 2000	0.15R	+37(6%Aug00)	Goldman/Morgan Stanley
Lukinter Finance(b)§	350	1.00	100.00	Nov 2003	2.50	-	SBCWDR
CNO(c)★	75	10.00#	99.91R	Oct 2005	0.675R	+400(6YT)	LTCB International
[illegible]							
European Inv'ment Bank(d)	1bn	5.25	99.021R	Apr 2004	0.30R	+4(6¼%Mar04)	BNP/Dresdner/SBCW
Oest Postsparkasse	500	5.25	99.74R	Nov 2002	0.25R	+20(4½May02)	BayerVB/Merrill Lynch
Arbed(e)§	250	3¼-3¾	100.00	Oct 2004	2.375	-	Morgan Stanley DW
[illegible]							
Railtrack(f)	300	7.375	99.001R	Nov 2022	0.625R	+78(8%-2021)	Barclays/HSBC Markets
[illegible]							
CCCMT 1, 97-9, Class A(g)	1bn	3.25	100.00R	Nov 2002	0.25R	-7(swaps)	CSFB
[illegible]							
United Mexican States	500	(h)#	(h)R	Jun 2003	0.625R	+175(7¼%-03)	Merrill/Scotia Cap Mkts
[illegible]							
Banque Int'le à Luxembourg	2bn	5.50	102.15	Dec 2003	1.875	-	BIL
[illegible]							
Crédit Local de France(i)	15bn	9.00	100.00R	Nov 2002	0.25R	-	PaineWebber Intl(UK)
Bayerische Hypo	10bn	9.50	99.78R	Nov 1999	0.125R	-	Morgan Stanley DW

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable on coupon dates from 6/11/98 at par. b) Exch into Lukoil GDRs at $177.78. Redemption: 153.314%. Call from 3/11/00, subject to 155% hurdle, at accreted value. c) Call & put on 24/10/03 at 99.512%. d) Fungible with Euro1.3bn, LFr2bn and L750bn upon Emu. e) Fixing expected 23/10/97. Callable from 30/10/00 at par. Greenshoe: DM50m. f) Spens call provision. Event risk put options. g) Citibank Credit Card Master Trust. Backed by US$ denominated US originated credit card receivables. Legal maturity: 25/11/04. g1) Cls B: SFr64m, 3½%, 100.275R. h) Priced today. i) Long 1st coupon. s) Short 1st coupon.

Growth fund to list in Budapest

By Kester Eddy in Budapest

Credit Suisse Asset Management yesterday said its Central European Growth Fund will be the first foreign-registered investment fund to be listed on the Budapest Stock Exchange.

Trading in Budapest of CEGF global depositary receipts – paper traded in lieu of underlying shares – is set to begin next week. One GDR is equivalent to 10 shares.

The managers are currently also planning to introduce the first warrants on the Budapest bourse, probably later in the year, once regulations are fully in place.

The Central European Growth Fund, registered in Cardiff, Wales, in 1994, has share capital of $210m and currently has a net asset value of $300m.

The fund targets central and eastern Europe, excluding Russia, and is 84 per cent invested in Poland, Hungary and the Czech Republic.

Managers said the listing would satisfy local demand to invest and diversify portfolios in the region.

The fund is concentrating on stocks with a strong record or potential growth in exports, such as Hungarian companies Gedeon Richter (pharmaceuticals), Borshodchem (chemicals) and MOL (oil and gas).

The fund also plans to list in Prague and Warsaw early next year. Krisztina Kozma, fund manager, said Budapest had been chosen as the first step because the market had the best prepared regulations and infrastructure.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Oct 21	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.7489	4.93	+0.03	-0.17	+0.25	-1.72
	10/07	10.000	127.0834	6.27	+0.06	-0.14	+0.11	-1.23
Austria	06/99	7.000	103.9700	4.78	+0.01	+0.18	+0.47	+1.20
	07/07	5.625	99.1000	5.74	+0.04	+0.18	+0.15	-0.30
Belgium	04/99	7.000	103.4300	4.58	-0.01	+0.17	+0.52	+1.20
	03/07	6.250	103.1700	5.80	+0.01	+0.13	+0.15	-0.28
Canada*	03/99	4.000	100.0600	3.96	-0.02	-0.14	-0.14	-0.33
	06/07	7.250	111.0000	5.72	+0.02	+0.07	-0.04	-0.73
Denmark	12/99	6.000	101.9000	5.09	-0.03	+0.18	+0.37	+0.87
	11/07	7.000	106.0600	6.17	-0.02	+0.14	+0.06	-0.63
Finland	01/99	11.000	107.7960	4.32	-0.02	+0.06	+0.21	+0.80
	04/06	7.250	109.1750	5.84	-0.04	+0.13	+0.06	-0.61
France	11/99	7.000	104.5200	4.64	+0.04	+0.23	+0.52	+0.86
	10/04	6.750	107.3500	5.46	+0.03	+0.18	+0.36	-0.01
	10/07	5.500	98.3000	5.73	+0.03	+0.18	+0.25	-0.22
	10/25	6.000	96.8200	6.24	+0.02	+0.15	+0.10	-0.60
Germany	06/99	3.500	98.4300	4.50	+0.06	+0.22	+0.53	+1.04
	07/04	6.750	106.9600	5.48	+0.08	+0.19	+0.30	-0.12
	07/07	6.000	102.1500	5.70	+0.04	+0.15	+0.15	-0.26
	07/27	6.500	103.4500	6.24	+0.03	+0.13	+0.04	-0.57
Ireland	04/99	6.250	100.7800	5.64	-0.01	+0.14	+0.26	-0.26
	08/06	8.000	112.5100	6.12	+0.01	+0.11	+0.04	-0.79
Italy	05/00	8.000	101.8400	5.43	+0.04	+0.18	+0.06	-1.83
	05/02	6.250	102.2200	5.69	+0.02	+0.15	+0.10	-1.91
	07/07	6.750	104.5700	8.12	+0.01	+0.17	-	-2.07
	11/26	7.250	108.3600	6.60	-0.01	+0.06	-0.13	-2.13
Japan	06/99	4.800	107.0600	0.49	-	-0.01	+0.01	-0.42
	12/02	4.800	117.3900	1.29	-	-0.07	-0.19	-0.80
	09/05	3.000	108.6700	1.79	-	-0.03	-0.22	-0.98
	03/17	3.500	118.7300	2.60	-	-0.04	-0.25	-0.79
Netherlands	06/99	7.500	104.5200	4.56	+0.04	+0.22	+0.45	+1.14
	02/07	5.750	100.3700	5.69	+0.03	+0.15	+0.16	-0.17
New Zealand	02/00	6.500	99.2502	6.84	-0.03	+0.05	+0.03	-0.25
	11/06	8.000	108.6594	6.66	-0.05	-0.03	+0.01	-0.76
Norway	01/99	9.000	105.2700	4.60	+0.03	+0.15	+0.18	-0.83
	01/07	6.750	106.3000	5.84	+0.01	+0.09	-	-0.92
Portugal	03/99	8.500	104.3927	5.16	-	+0.09	+0.10	-1.53
	02/07	6.625	103.6968	6.06	+0.02	+0.10	-	-1.52
Spain	07/99	7.400	103.8927	5.02	+0.04	+0.12	+0.18	-1.60
	03/07	7.350	109.3118	6.02	+0.03	+0.10	+0.06	-1.74
Sweden	01/99	11.000	106.7900	5.17	-	+0.25	+0.32	-0.33
	08/07	8.000	111.6630	6.36	-0.04	+0.16	+0.02	-1.06
Switzerland	03/99	4.000	102.5000	2.13	+0.14	+0.10	+0.37	+0.24
	06/07	4.500	106.3600	3.63	+0.01	+0.06	+0.14	-0.25
UK	08/99	5.000	98.4766	6.91	-	+0.01	+0.07	+0.54
	11/04	6.750	100.5313	6.65	+0.01	+0.18	-0.08	-0.82
	12/07	7.250	104.7500	6.60	+0.02	+0.16	-0.07	-0.98
	06/21	8.000	117.3125	6.55	+0.03	+0.13	-0.06	-1.39
US*	07/99	5.875	99.9220	5.92	+0.05	+0.11	+0.10	+0.03
	05/04	7.250	105.8440	6.15	-	+0.08	+0.08	-0.11
	08/07	6.125	99.8560	6.14	-	+0.07	+0.05	-0.38
	08/27	6.375	99.3280	8.42	-	+0.08	+0.08	-0.39
ECU	03/99	5.000	100.2000	4.83	+0.01	+0.14	+0.32	+0.61
	04/07	6.000	97.3600	5.87	+0.02	+0.18	+0.14	-0.42

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Oct 21	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.27	+0.57	+0.12
Austria	5.74	+0.04	-0.41
Belgium	5.80	+0.10	-0.35
Canada	5.72	+0.02	-0.43
Denmark	6.18	+0.48	+0.03
Finland	5.84	+0.14	-0.31
France	5.73	+0.03	-0.42
Germany	5.70	-	-0.45
Ireland	6.12	+0.42	-0.03
Italy	6.12	+0.42	-0.03
Japan	1.79	-3.91	-4.36
Netherlands	5.69	-0.01	-0.46
New Zealand	6.66	+0.96	+0.51
Norway	5.84	+0.14	-0.31
Portugal	6.06	+0.36	-0.09
Spain	6.02	+0.32	-0.13
Sweden	6.36	+0.66	+0.21
Switzerland	3.63	-2.07	-2.52
UK	6.60	+0.90	+0.45
US	6.15	+0.45	-
ECU	5.86	+0.16	-0.29

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Oct 21	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
[illegible]								
Croatia	02/02	7.000	BBB-	97.9818	7.55	-	-0.02	+1.47
Poland	07/00	7.750	BBB-	102.6066	6.65	-	+0.09	+0.66
Russia	11/01	9.250	BB-	104.1215	8.02	-0.01	-0.33	+2.00
[illegible]								
Argentina	01/17	11.375	BB	113.1023	9.51	-0.02	+0.01	+3.22
Brazil	11/01	8.875	BB-	102.9408	7.99	-	+0.06	+1.97
Mexico	01/07	9.875	BB	107.8496	8.62	-0.01	-0.09	+2.47
[illegible]								
China	07/06	7.750	BBB+	104.2529	7.07	+0.01	-	+0.93
Philippines	10/16	8.750	BB+	99.2621	8.83	-0.01	+0.03	+2.56
Thailand	04/07	7.750	A-	97.3524	9.15	+0.05	+0.29	+2.00
[illegible]								
Lebanon	07/00	9.125	BB-	103.1443	7.79	-	-0.08	+1.82
South Africa	12/99	8.625	BB+	105.4049	6.96	-	-	+0.96
Turkey	05/02	10.000	B	105.6191	8.49	-0.15	-0.21	+2.41
BRADY BONDS								
Argentina	03/23	5.500	BB	75.1906	8.32	-0.01	+0.01	+1.95
Brazil	04/24	5.250	BB-	73.4914	8.42	+0.02	+2.01	+2.03
Mexico	12/19	6.250	BB	82.5745	7.93	-0.01	+0.02	+1.61
Venezuela	03/20	6.750	B+	86.3162	8.06	-0.01	+0.18	+1.75

London closing. Prices in US$. Source: Interactive Data/FT Information.
Standard & Poor's ratings.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.26	98.26	+0.12	98.26	98.00	100,120	126,332
Mar	97.68	97.74	+0.12	97.68	97.58	37	7,686
Jun	97.24	97.30	+0.12	97.24	97.24	-	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Mar
97	-	1.52	-	0.04	0.26	0.90
98	0.47	0.81	1.06	0.21	0.55	1.32
99	0.07	0.34	0.65	0.81	1.06	1.89
100	0.01	0.10	0.35	1.75	1.84	-
101	0.01	0.03	0.18	2.75	2.76	-

Est. vol. total, Calls 21,763 Puts 16,399. Previous day's open int., Calls 88,267 Puts 102,770.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.96	101.69	-0.29	102.04	101.66	168910	289128
Mar	101.20	100.98	-0.29	101.24	101.20	540	8457

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
10150	0.32	0.70	0.59	0.92	0.13	0.51	1.11	1.44
10200	0.09	0.44	0.41	0.71	0.40	0.75	1.43	1.73
10250	0.01	0.25	0.27	0.53	0.82	1.06	1.79	2.05

Est. vol. total, Calls 25689 Puts 16579. Previous day's open int., Calls 248510 Puts 319336

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.60	102.62	-0.21	102.84	102.60	128,291	250,944
Mar	102.04	101.99	-0.12	102.12	101.99	5.597	3,807

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.68	111.84	-0.04	112.18	111.58	47123	111224
Mar		111.79	-0.04			0	1424

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
11150	0.89	1.54	0.55	1.25
11200	0.62	1.28	0.79	1.49
11250	0.41	1.03	1.07	1.74

Est. vol. total, Calls 4721 Puts 3466. Previous day's open int., Calls 124091 Puts 110602

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	103.05	103.02	-0.13	103.37	102.96	61,303	61,303
Mar	-	102.48	-	-	-	-	50

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	118-06	118-03	-0-07	118-13	118-02	67751	180930
Mar	118-03	118-00	-0-07	118-07	118-00	4994	16322

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
118	0-25	1-01	1-21	1-59	0-19	0-59	1-21	1-59
119	0-05	0-38	0-57	1-29	0-63	1-32	1-57	2-29
120	0-01	0-21	0-38	1-05	1-59	2-16	2-36	3-05

Est. vol. total, Calls 1366 Puts 3525. Previous day's open int., Calls 65317 Puts 40210

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	97.38	97.50	+0.18	97.52	97.18	714	4,573

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	115-01	114-30	-0-04	115-06	114-26	199,721	635,088
Mar	114-27	114-19	-0-06	114-27	114-17	757	68,794
Jun	-	114-13	-	-	-	21	8,282

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	129.62			129.74	129.60	1523	na
Mar	128.71			128.80	128.71	422	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Oct 20	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	103.1886	6.44	-0.01	+0.06	+0.38
NY Tel	08/25	7.00	A+	98.3525	7.30	-0.04	+0.04	+0.88
CWE	05/08	8.00	BBB	107.2463	7.01	-0.03	+0.04	+0.87
FINANCIALS								
GECC	05/07	8.75	AAA	114.9483	6.51	-0.04	+0.04	+0.47
Banc One	08/02	7.25	A+	102.9715	6.51	-0.01	+0.06	+0.46
US West	01/07	7.30	BBB+	102.2798	6.95	-0.04	+0.10	+0.81
INDUSTRIALS								
WMX Tech	04/99	8.25	A-	100.0993	6.17	-0.03	+0.04	+0.31
Wal Mart	05/02	6.75	AA	101.4177	6.36	-0.02	+0.06	+0.33
Dayton Hud	06/21	8.70	BBB+	125.5727	7.39	-0.03	+0.09	+0.97
AGENCIES								
FHLMC	04/07	7.14	N/A	105.1293	6.40	-0.04	+0.03	+0.26
SLMA	03/00	7.50	N/A	103.2192	6.02	-0.02	+0.07	+0.06
FNMA	02/18	8.95	N/A	123.4049	6.80	-0.03	+0.04	+0.38
FFCS	06/06	8.95	N/A	116.6954	6.39	-0.02	+0.06	+0.25
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.3750	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.0000	0.00	-	-	-
Pacalta	06/04	10.75	B-	104.7500	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.89
Prime rate	8½	Two month	-	Three year	5.96
Broker loan rate	7¼	Three month	5.08	Five year	6.06
Fed.funds	5$\frac{9}{16}$	Six month	5.36	10-year	6.14
Fed.funds at intervention	-	One year	5.55	30-year	6.42

INTERNATIONAL BONDS

Oct 21	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	100.0300	5.74	+0.02	+0.15	+0.04
Spain	01/07	5.750	AA	99.3000	5.86	+0.05	+0.21	+0.15
Philip Morris	03/04	5.375	A	97.2967	5.89	+0.06	+0.37	+0.41
ABN Amro	03/06	3.625	n/a	99.4619	4.75	+0.06	+0.27	+0.16
EURO FFR								
Austria	01/04	5.500	AAA	100.0200	5.49	+0.04	+0.39	+0.08
Abbey Nat	02/04	6.000	AA	102.3000	5.55	+0.04	+0.37	+0.09
Cred Foncier	02/04	9.125	A	116.9400	5.83	+0.08	+0.35	+0.37
Abbey Nat	08/06	4.510	AA	99.6235	4.56	+0.03	+0.26	-1.07
EURO LIRA								
EIB	02/07	7.000	AAA	106.6000	6.05	-	-0.09	-0.07
Abbey Nat	02/02	6.800	AA	103.8500	5.76	+0.02	+0.04	-0.05
Walt Disney	06/00	8.625	A	106.5000	5.89	-	+0.02	+0.49
Abbey Nat	03/07	8.000	AA	103.5570	7.01	+0.02	-0.14	+0.89
[illegible]								
EIB	12/07	7.625	AAA	105.4983	6.86	+0.02	-0.05	+0.25
Dresdner Bk	12/07	7.750	AA	103.5430	7.24	+0.02	-0.08	+0.64
RBS	01/07	8.375	A+	106.6584	7.35	+0.01	-0.12	+0.75
Abbey Nat	02/02	7.400	AA	99.9483	6.73	-0.01	-0.04	+0.09
[illegible]								
EIB	04/07	7.250	AAA	104.6367	6.57	-0.02	+0.11	+0.42
ABN Amro	06/07	7.125	AA-	103.2594	6.66	-0.15	-0.10	+0.51
Quebec	01/07	7.000	A+	101.4811	6.78	-0.01	+0.04	+0.63
Citicorp	02/04	6.781	A+	99.6883	5.84	-0.10	+0.16	-0.27
EURO C$								
Bayer L-Bk	06/04	9.500	AAA	120.2723	5.80	-0.02	-0.08	+0.10
Toronto	05/04	8.500	AA+	114.3866	5.80	-0.02	-0.08	+0.10
Bell Canada	07/99	10.625	A+	109.2037	4.80	-0.02	+0.18	-0.03
Deutsche Bk	09/02	5.875	AAA	101.8854	5.43	-0.02	-	-0.08
EURO YEN								
World Bank	03/02	5.250	AAA	117.6500	1.13	-0.01	-0.15	+0.01
Spain	03/02	5.750	AA	119.4000	1.21	+0.01	-0.14	+0.09
Cred Foncier	08/02	4.750	A	114.3131	1.62	-	-0.12	+0.50
Italy	07/99	0.703	AA	100.6217	0.12	-0.01	-0.02	-0.37

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Tue Oct 21	Day's change %	Mon Oct 20	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	120.14	0.02	120.11	2.57	8.29
2 5-15 years (20)	156.97	-0.13	157.18	3.04	9.03
3 Over 15 years (4)	186.11	-0.30	186.69	3.78	9.77
4 Irredeemables (4)	227.79	-0.33	228.55	4.54	9.50
5 All stocks (48)	150.30	-0.11	150.47	3.04	9.03
Index-linked					
6 Up to 5 years (2)	209.79	0.06	209.67	0.32	6.09
7 Over 5 years (10)	211.54	0.20	211.12	1.31	5.21
8 All stocks (12)	210.26	0.19	209.89	1.21	5.26

UK Indices

	Low coupon yield Oct 21	Low Oct 20	Low Yr. ago	Medium coupon yield Oct 21	Medium Oct 20	Medium Yr. ago	High coupon yield Oct 21	High Oct 20	High Yr. ago
5 yrs	6.67	6.66	7.00	6.78	6.79	7.06	6.82	6.82	7.18
15 yrs	6.61	6.58	7.78	6.62	6.59	7.78	6.68	6.66	7.82
20 yrs	6.61	6.58	7.89	6.60	6.57	7.88	6.68	6.66	7.91
Irred.†	6.68	6.66	7.97						

Index-linked	Inflation 5% Oct 21	Oct 20	Yr. ago	Inflation 10% Oct 21	Oct 20	Yr. ago
Up to 5 yrs	3.21	3.22	3.10	2.47	2.48	2.41
Over 5 yrs	3.21	3.22	3.55	2.99	3.01	3.34

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 21	Oct 20	Oct 17	Oct 16	Oct 15	Yr ago	High*	Low*
Govt. Secs. (UK)	99.64	99.76	100.11	100.18	100.57	94.3	101.83	93.31
Fixed Interest	132.29	132.37	132.56	132.78	132.74	115.6	133.54	116.32

* for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts* (Lives up to Five Years)						
Exch 10pc 1997	14.98	7.02	[illegible]	[illegible]	[illegible]	[illegible]
Treas 4¾pc 1998‡‡	3.99	6.49	[illegible]	[illegible]	[illegible]	[illegible]
Exch 9¾pc 1998	9.60	7.08	[illegible]	[illegible]	[illegible]	[illegible]
Treas 7¼pc 1998‡‡	7.24	6.99	[illegible]	[illegible]	[illegible]	[illegible]
Treas 15½pc '98‡‡	14.41	7.00	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12pc 1998	11.43	7.05	[illegible]	[illegible]	[illegible]	[illegible]
Treas 9½pc 1999‡‡	9.24	6.98	[illegible]	[illegible]	[illegible]	[illegible]
Treas Flg Rate 1999‡‡	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12¼pc 1999	11.45	7.05	[illegible]	[illegible]	[illegible]	[illegible]
Treas 10½pc 1999	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Treas 10pc 2003	8.60	6.75	[illegible]	[illegible]	[illegible]	[illegible]
Treas 11½pc 2001-4	10.12	6.92	[illegible]	[illegible]	[illegible]	[illegible]
Treas 10pc 2004	8.54	6.73	[illegible]	[illegible]	[illegible]	[illegible]
Funding 3½pc 1999-4	3.95	5.53	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9½pc 2004	8.22	6.68	[illegible]	[illegible]	[illegible]	[illegible]
Treas 6¾pc 2004‡‡	6.72	6.65	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9½pc 2005	8.18	6.71	[illegible]	[illegible]	[illegible]	[illegible]
Exch 10½pc 2005	8.53	6.68	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12½pc 2003-5	9.75	6.77	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2005‡‡	7.64	6.66	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9¾pc 2006	8.08	6.66	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked (b)						
2½pc '99	2.73	3.29	[illegible]	[illegible]	[illegible]	[illegible]
2½pc '01 (78.3)	3.21	3.52	[illegible]	[illegible]	[illegible]	[illegible]
2½pc '03 (78.8)	3.21	3.42	[illegible]	[illegible]	[illegible]	[illegible]
4⅜pc '04‡‡ (135.6)	3.18	3.37	[illegible]	[illegible]	[illegible]	[illegible]
2pc '06 (69.5)	3.22	3.36	[illegible]	[illegible]	[illegible]	[illegible]
2½pc '09 (78.8)	3.19	3.30	[illegible]	[illegible]	[illegible]	[illegible]
2½pc '11 (74.6)	3.19	3.29	[illegible]	[illegible]	[illegible]	[illegible]
2½pc '13 (89.2)	3.19	3.28	[illegible]	[illegible]	[illegible]	[illegible]
2½pc '16 (81.6)	3.19	3.27	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. [illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. [illegible]

CURRENCIES AND MONEY

Portfolio shuffles give lift to sterling

MARKETS REPORT

By Richard Adams and Wolfgang Münchau

Changed expectations over the timing of the UK's entry into a European single currency helped strengthen sterling and the US dollar yesterday, as traders sought to rebalance their positions.

The pound raced to its highest level against tha D-Mark for over seven weeks, during trading in London. It closed at DM2.9184, a rise of three pfennigs from its closing price in London on Monday.

The dollar and the yen also gained strongly in London against the German currency, as falling money supply figures and hearish comments by the Bundesbank counterbalanced a buoyant Ifo business climate survey published. The dollar gained almost a pfennig and half, to DM1.7851.

The yen rebounded to Y67.45 from Y68.48 against the D-Mark. But in Japan, the widely-anticipated stimnlus package produced by the government failed to inspire mnch confidence tbet growth and interest retes would soon help the yen.

Paul Meggyesi, analyst at Deutsche Morgan Grenfell in London, said the pound'e extended rise had probably overshot the currency'e level, and would settle back as institutions moved to cover their positions after the policy uncertainty of recent weeks.

Part of the reason was e technical correction of the D-Mark against the dollar and the yen as well. "I think people were a little slow in getting on the D-Mark bandwagon and went a bit over the top," Mr Meggyesi said. "What we are seeing is a repositioning."

Meanwhile the Hong Kong authorities responded to heavy selling pressure on the Hong Kong dollar against its US counterpart by raising interest rates.

■ The confusion about the UK government's policy towards economic and monetary union raises a number of questions for sterling. This week's market reaction, which saw the British currency rise by some 7 pfennigs in two days, is unlikely to have been the last word.

The government's letest position eppears to be that the UK will not join Emn before the next general election, which must be held by the spring of 2002. This suggests the UK may in practice not joim before 2003. It may even be that the UK never joins. Either way, Emu participation ehould no longer consitute a significant factor in today's sterling rate.

Until last week, the markets had factored in sterling joining Emu shortly after 1999, possihly et a central parity of around DM2.60, plus or minus 5 or 10 pfennigs et most. That scenario suggested sterling would glide smoothly toward entry.

Currently, the markets factor in a delayed membership. Avinash Persaud, heed of currency research at J.P. Morgan, calculates an equilibrium exchange rate of DM2.95, based on current yield gaps and an assumption the UK joins in 2002. "The longer the UK stays away, the higher sterling can stay," he says.

But what if the UK never joined? After all, the year 2002 could prove awkward timing, because the UK and the Emu-zone may by then heve reversed positions in the economic cycle.

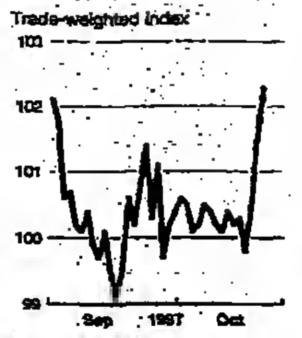
Richard Jeffrey, economist at Charterbouse, e London equities house, adds another argument: the UK economy may well be overheating and heading for a period of falling growth and rising inflation. Foreign investore might take fright, adding to the risks for the exchange rate, whicb in turn could reinforce inflation.

Such economic pressures, rainforced by government indecision, suggests sterling could turn out to be even more volatile in the near future than it did in the near past. The prospect of Emu membership provided sterling with a reasonably stable exchange-rate corridor. Such a corridor no longer exists.

■ The Hong Kong dollar came under pressure yesterday. Steve Jennions, emerging markets analyst at Credit Agricole-Indosuez, said one year forward rates shot up to HK$8.05, after the anthorities struggled to defend the spot rate at HK$7.75. "Most fund managers are overweight in Hong Kong dollars, and most of them do not understand the currency risk," Mr Jennions said.

Sterling

Trade-weighted index



Source: Datastream/ICV

■ Pound in New York

Oct 21	---Latest---	-- Prev. close --
£ spot	1.6335	1.6340
1 mth	1.6313	1.6319
3 mth	1.6274	1.6280
1 yr	1.6125	1.6130

■ OTHER CURRENCIES

Oct 21	£	$
Czech Rp	54.2769 - 54.3524	33.2050 - 33.2410
Hungary	323.961 - 324.126	198.190 - 198.230
Iran	4905.30 - 4903.80	3000.00 - 3000.00
Kuwait	0.4972 - 0.4976	0.3042 - 0.3043
Poland	5.5686 - 5.5757	3.4055 - 3.4100
Russia	9585.10 - 9601.31	5870.00 - 5872.00
U.A.E.	6.0036 - 6.0057	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Oct 21		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.5409	+0.2117	340 - 478	20.5536	20.3399	20.4865	3.2	20.3738	3.3	19.9683	3.3	102.8
Belgium	(BFr)	60.1543	+0.5921	059 - 027	60.2030	59.5750	59.9743	3.6	59.6043	3.7	57.8543	3.6	101.8
Denmark	(DKr)	11.1110	+0.1096	076 - 143	11.1205	11.0043	11.0795	3.4	11.0155	3.4	10.724	3.3	103.9
Finland	(FM)	8.7350	+0.0897	296 - 404	8.7410	8.6480	8.7098	3.5	8.6571	3.6	8.4445	3.3	81.1
France	(FFr)	9.7768	+0.0932	736 - 799	9.7858	9.6796	9.7438	4.1	9.6868	3.7	9.4113	3.7	106.1
Germany	(DM)	2.9184	+0.0301	178 - 191	2.9216	2.8895	2.9091	3.8	2.8901	3.9	2.8032	3.9	102.7
Greece	(Dr)	456.892	+4.444	413 - 370	457.375	452.594	458.675	-4.7	461.299	-3.9	469.667	-2.8	65.5
Ireland	(I£)	1.1158	+0.0098	146 - 170	1.1170	1.1062	1.1153	0.6	1.1139	0.7	1.103	1.1	97.4
Italy	(L)	2846.06	+25.54	469 - 743	2850.92	2823.36	2845.99	0.8	2846.17	0.0	2841.67	0.1	78.2
Luxembourg	(LFr)	60.1543	+0.5921	059 - 027	60.2030	59.5750	59.9743	3.8	59.6043	3.7	57.8543	3.8	101.8
Netherlands	(Fl)	3.2872	+0.0329	862 - 882	3.2894	3.2557	3.277	3.7	3.2561	3.8	3.1601	3.9	101.1
Norway	(NKr)	11.7575	+0.1765	541 - 609	11.7774	11.5836	11.725	3.3	11.664	3.2	11.385	3.1	99.1
Portugal	(Es)	296.856	+2.6	729 - 983	297.407	294.171	296.7	0.6	296.17	0.9	292.082	1.6	91.8
Spain	(Pta)	246.184	+2.604	089 - 279	246.280	243.850	245.869	1.5	245.116	1.7	240.749	2.2	76.6
Sweden	(SKr)	12.5676	+0.1665	616 - 736	12.5740	12.4236	12.5401	2.6	12.4916	2.7	12.2251	2.7	86.4
Switzerland	(SFr)	2.4258	+0.0263	248 - 268	2.4268	2.3967	2.4149	5.4	2.3923	5.5	2.2921	5.5	104.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	102.3
Ecu	-	1.4786	+0.0125	779 - 792	1.4803	1.4670	1.4753	2.7	1.4681	2.8	1.4341	3.0	-
SDR†	-	1.19349	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6346	+0.0049	343 - 349	1.6391	1.6305	-	-	-	-	-	-	-
Brazil	(R$)	1.7980	+0.0046	976 - 984	1.8025	1.7933	-	-	-	-	-	-	-
Canada	(C$)	2.2711	+0.0125	703 - 718	2.2728	2.2587	2.2643	3.6	2.2506	3.6	2.1967	3.1	84.5
Mexico	(New Peso)	12.6235	+0.0279	175 - 295	12.6480	12.5939	-	-	-	-	-	-	-
USA	($)	1.6349	+0.0044	346 - 351	1.6394	1.6307	1.6326	1.7	1.6287	1.5	1.6132	1.3	105.4
Pacific/Middle East/Africa													
Australia	(A$)	2.2497	+0.0178	478 - 516	2.2581	2.2371	2.246	1.9	2.2376	2.1	2.2007	2.2	91.7
Hong Kong	(HK$)	12.6677	+0.0411	649 - 704	12.7013	12.6297	12.6687	0.1	12.6602	0.2	12.6052	0.5	-
India	(Rs)	59.1888	+0.133	398 - 397	59.3896	59.0850	59.385	-4.0	59.7856	-4.0	61.4653	-3.9	-
Israel	(Shk)	5.7667	+0.0181	597 - 776	5.7800	5.7593	-	-	-	-	-	-	-
Japan	(Y)	196.844	-0.936	741 - 948	198.190	196.640	195.824	6.2	193.769	6.2	184.814	6.1	127.6
Malaysia	(M$)	5.4523	+0.026	449 - 596	5.4782	5.4378	5.4566	-0.9	5.4646	-0.9	5.4932	-0.8	-
New Zealand	(NZ$)	2.5603	+0.0223	589 - 618	2.5628	2.5422	2.5635	-1.5	2.5673	-1.1	2.5679	-0.3	107.6
Philippines	(Peso)	58.0100	+0.8219	197 - 003	57.2378	55.8035	56.1696	-3.4	56.4193	-2.9	57.4763	-2.6	-
Saudi Arabia	(SR)	6.1316	+0.0184	306 - 326	6.1478	6.1161	6.1281	0.7	6.1197	0.8	6.0832	0.8	-
Singapore	(S$)	2.5774	+0.0236	753 - 794	2.5868	2.5594	2.5728	2.2	2.5627	2.3	2.5145	2.4	-
South Africa	(R)	7.6806	+0.0278	769 - 842	7.6853	7.6594	7.7413	-9.5	7.8592	-9.3	8.2962	-8.0	-
South Korea	(Won)	1511.66	+4.26	118 - 214	1515.63	1502.36	-	-	-	-	-	-	-
Taiwan	(T$)	50.0926	+0.2392	449 - 403	50.7706	49.7249	50.078	0.4	50.0362	0.4	49.8585	0.5	-
Thailand	(Bt)	63.1053	+1.554	321 - 784	63.5970	62.1980	63.4419	-6.4	63.9035	-5.1	64.9337	-2.9	-

† Rates for Oct 20. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 21		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5644	+0.0963	621 - 667	12.5750	12.4536	12.5404	2.3	12.4914	2.3	12.2674	2.4	102.1
Belgium	(BFr)	36.7950	+0.265	710 - 190	36.8200	36.4740	36.72	2.4	36.5685	2.5	35.875	2.5	102.1
Denmark	(DKr)	6.7963	+0.049	953 - 973	6.8041	6.7374	6.7846	2.1	6.7603	2.1	6.6539	2.1	103.4
Finland	(FM)	5.3430	+0.0407	405 - 455	5.3475	5.2952	5.3315	2.6	5.3079	2.6	5.214	2.4	80.7
France	(FFr)	5.9802	+0.0412	792 - 812	5.9877	5.9275	5.9687	2.3	5.9448	2.4	5.836	2.4	104.7
Germany	(DM)	1.7851	+0.0137	849 - 853	1.7868	1.7690	1.7812	2.6	1.7734	2.6	1.7385	2.6	102.6
Greece	(Dr)	279.470	+1.98	220 - 720	279.750	277.090	280.765	-5.6	282.82	-4.8	289.97	-3.8	65.4
Ireland	(I£)	1.4652	-0.0084	638 - 665	1.4786	1.4638	1.4645	0.8	1.4635	0.5	1.4639	0.1	-
Italy	(L)	1740.87	+11.02	030 - 144	1744.00	1728.44	1742.63	-1.2	1745.64	-1.1	1749.07	-0.5	78.0
Luxembourg	(LFr)	36.7950	+0.265	710 - 190	36.8200	36.4740	36.72	2.4	36.5685	2.5	35.875	2.5	102.1
Netherlands	(Fl)	2.0107	+0.0148	104 - 110	2.0126	1.9933	2.0065	2.5	1.9979	2.5	1.9602	2.5	101.2
Norway	(NKr)	7.1918	+0.0891	908 - 928	7.2085	7.0891	7.1773	2.4	7.1489	2.4	7.0372	2.1	99.4
Portugal	(Es)	181.580	+1.11	530 - 630	181.900	180.020	181.544	0.2	181.49	0.2	180.32	0.7	92.5
Spain	(Pta)	150.585	+1.195	550 - 620	150.830	149.300	150.54	0.4	150.365	0.6	149.19	0.9	76.7
Sweden	(SKr)	7.6873	+0.0815	848 - 898	7.6929	7.6110	7.6782	1.4	7.6589	1.5	7.5846	1.3	86.6
Switzerland	(SFr)	1.4838	+0.0122	834 - 842	1.4846	1.4695	1.4785	4.3	1.4678	4.3	1.4223	4.1	104.9
UK	(£)	1.6349	+0.0044	346 - 351	1.6394	1.6307	1.6326	1.7	1.6287	1.5	1.6132	1.3	101.2
Ecu	-	1.1057	-0.0065	054 - 060	1.1128	1.1040	1.1071	-1.6	1.1103	-1.7	1.1259	-1.8	-
SDR†	-	0.732789	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0004	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0998	-0.0001	997 - 999	1.1001	1.0987	-	-	-	-	-	-	-
Canada	(C$)	1.3892	+0.004	889 - 894	1.3901	1.3843	1.3881	2.7	1.3803	2.5	1.3598	2.1	84.6
Mexico	(New Peso)	7.7215	-0.0035	190 - 240	7.7240	7.7140	7.83	-16.9	8.041	-16.6	8.9515	-15.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	106.0
Pacific/Middle East/Africa													
Australia	(A$)	1.3761	+0.0073	751 - 770	1.3770	1.3718	1.3755	0.5	1.3737	0.7	1.3653	0.8	93.5
Hong Kong	(HK$)	7.7485	+0.0045	480 - 490	7.7488	7.7423	7.749	-0.1	7.7499	-0.1	7.7522	0.0	-
India	(Rs)	36.2050	-0.015	800 - 300	36.2350	36.1760	36.3425	-4.8	36.6275	-4.7	37.84	-4.5	-
Israel	(Shk)	3.5286	+0.0017	236 - 335	3.5335	3.5235	-	-	-	-	-	-	-
Japan	(Y)	120.405	-0.895	360 - 450	121.250	120.200	119.89	5.1	118.89	5.0	114.59	4.8	127.9
Malaysia	(M$)	3.3350	+0.007	310 - 390	3.3475	3.3300	3.3395	-1.6	3.3485	-1.6	3.3785	-1.3	-
New Zealand	(NZ$)	1.5660	+0.0095	654 - 667	1.5670	1.5590	1.5668	-0.8	1.5692	-0.8	1.5793	-0.8	-
Philippines	(Peso)	34.2600	+0.29	100 - 100	35.1000	34.1000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	505 - 505	3.7508	3.7505	3.7513	-0.2	3.7523	-0.2	3.7569	-0.2	-
Singapore	(S$)	1.5765	+0.0102	755 - 775	1.5780	1.5670	1.5748	1.3	1.571	1.4	1.5515	1.6	-
South Africa	(R)	4.6980	+0.0045	985 - 995	4.7000	4.6835	4.7385	-10.3	4.816	-10.2	5.1205	-9.8	-
South Korea	(Won)	924.650	+0.15	500 - 800	925.000	919.900	-	-	-	-	-	-	-
Taiwan	(T$)	30.6405	+0.085	160 - 650	31.1000	30.5000	30.6515	-0.4	30.6805	-0.3	30.753	-0.4	-
Thailand	(Bt)	38.6000	+0.85	000 - 000	38.8500	37.2300	38.045	-13.8	39.75	-11.9	40.96	-6.2	-

† SDR rate per $ for Oct 20. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 20; Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

October 21	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4	$4\frac{1}{8}$	$4\frac{1}{8}$	$4\frac{1}{4}$	$4\frac{11}{32}$	6.00	2.75	-
France	$3\frac{13}{32}$	$3\frac{5}{8}$	$3\frac{5}{8}$	$3\frac{7}{8}$	$4\frac{1}{8}$	3.30	-	4.75
Germany	$3\frac{1}{4}$	$3\frac{7}{32}$	$3\frac{3}{8}$	$3\frac{5}{8}$	$4\frac{1}{8}$	4.50	2.50	3.30
Ireland	$6\frac{1}{4}$	$6\frac{1}{4}$	$6\frac{3}{8}$	6	$5\frac{7}{8}$	-	-	6.75
Italy	$6\frac{3}{4}$	$6\frac{5}{8}$	$6\frac{7}{32}$	$6\frac{1}{8}$	$5\frac{7}{8}$	7.75	6.25	6.02
Netherlands	$2\frac{7}{8}$	$3\frac{1}{4}$	$3\frac{3}{8}$	$3\frac{5}{8}$	$4\frac{1}{4}$	-	2.75	3.30
Switzerland	$1\frac{1}{2}$	$1\frac{3}{4}$	2	$2\frac{1}{8}$	$2\frac{1}{8}$	-	1.00	-
US	$5\frac{1}{2}$	$5\frac{19}{32}$	$5\frac{5}{8}$	$5\frac{23}{32}$	$6\frac{1}{8}$	-	5.00	-
Japan	$\frac{3}{8}$	$\frac{3}{8}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{7}{8}$	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	$5\frac{5}{8}$	$5\frac{5}{8}$	$5\frac{3}{4}$	$6\frac{1}{8}$	-	-	-
US Dollar CDs	-	5.48	5.52	5.61	5.75	-	-	-
ECU Linked Ds	-	$4\frac{11}{32}$	$4\frac{3}{8}$	$4\frac{1}{2}$	$4\frac{5}{8}$	-	-	-
SDR Linked Ds	-	$3\frac{3}{4}$	$3\frac{13}{16}$	$3\frac{7}{8}$	$4\frac{1}{8}$	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 21	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	$4\frac{1}{32} - 3\frac{15}{16}$	$4 - 3\frac{15}{16}$	$4\frac{1}{16} - 3\frac{15}{16}$	$4\frac{1}{16} - 3\frac{15}{16}$	$4\frac{1}{8} - 4\frac{1}{16}$	$4\frac{11}{32} - 4\frac{7}{32}$
Danish Krone	$3\frac{9}{16} - 3\frac{1}{2}$	$3\frac{19}{32} - 3\frac{21}{32}$	$3\frac{7}{8} - 3\frac{3}{4}$	$4\frac{1}{16} - 3\frac{15}{16}$	$4\frac{3}{16} - 4\frac{1}{16}$	$4\frac{9}{16} - 4\frac{7}{16}$
German Mark	$3\frac{3}{8} - 3\frac{1}{4}$	$3\frac{1}{2} - 3\frac{3}{8}$	$3\frac{13}{32} - 3\frac{11}{32}$	$3\frac{17}{32} - 3\frac{13}{32}$	$3\frac{13}{16} - 3\frac{11}{16}$	$4\frac{3}{16} - 4\frac{1}{16}$
Dutch Guilder	$2\frac{15}{16} - 2\frac{7}{8}$	$3\frac{3}{8} - 3\frac{1}{4}$	$3\frac{1}{2} - 3\frac{3}{8}$	$3\frac{11}{16} - 3\frac{9}{16}$	$3\frac{7}{8} - 3\frac{3}{4}$	$4\frac{1}{4} - 4\frac{1}{8}$
French Franc	$3\frac{15}{32} - 3\frac{3}{8}$	$3\frac{15}{32} - 3\frac{13}{32}$	$3\frac{1}{2} - 3\frac{13}{32}$	$3\frac{11}{16} - 3\frac{9}{16}$	$3\frac{27}{32} - 3\frac{3}{4}$	$4\frac{7}{32} - 4\frac{1}{8}$
Portuguese Esc.	$5\frac{1}{2} - 5\frac{7}{16}$	$5\frac{17}{32} - 5\frac{15}{32}$	$5\frac{15}{32} - 5\frac{7}{16}$	$5\frac{11}{32} - 5\frac{5}{16}$	$5\frac{5}{16} - 5\frac{9}{32}$	$5\frac{5}{32} - 5\frac{1}{32}$
Spanish Peseta	$5\frac{3}{32} - 4\frac{15}{16}$	$5\frac{1}{8} - 5\frac{1}{32}$	$5\frac{1}{8} - 5\frac{1}{32}$	$5\frac{1}{8} - 5\frac{1}{32}$	$5\frac{1}{16} - 5\frac{1}{32}$	$5 - 4\frac{31}{32}$
Sterling	$7\frac{5}{16} - 7\frac{1}{16}$	$7\frac{1}{8} - 7\frac{1}{16}$	$7\frac{5}{16} - 7\frac{1}{8}$	$7\frac{3}{8} - 7\frac{1}{4}$	$7\frac{15}{32} - 7\frac{11}{32}$	$7\frac{1}{2} - 7\frac{7}{16}$
Swiss Franc	$1\frac{1}{8} - 1\frac{1}{8}$	$1\frac{17}{32} - 1\frac{1}{8}$	$1\frac{27}{32} - 1\frac{23}{32}$	$2\frac{1}{16} - 1\frac{15}{16}$	$2\frac{1}{8} - 2$	$2\frac{13}{32} - 2\frac{9}{32}$
Canadian Dollar	$3\frac{5}{8} - 3\frac{1}{2}$	$3\frac{3}{4} - 3\frac{1}{2}$	$3\frac{11}{16} - 3\frac{9}{16}$	$3\frac{15}{16} - 3\frac{13}{16}$	$4\frac{1}{16} - 3\frac{15}{16}$	$4\frac{1}{2} - 4\frac{3}{8}$
US Dollar	$5\frac{5}{16} - 5\frac{7}{16}$	$5\frac{5}{8} - 5\frac{1}{2}$	$5\frac{19}{32} - 5\frac{17}{32}$	$5\frac{3}{4} - 5\frac{11}{16}$	$5\frac{27}{32} - 5\frac{25}{32}$	$6\frac{1}{32} - 6\frac{1}{32}$
Italian Lira	$6\frac{3}{4} - 6\frac{1}{2}$	$6\frac{25}{32} - 6\frac{11}{16}$	$6\frac{3}{4} - 6\frac{5}{8}$	$6\frac{7}{16} - 6\frac{13}{32}$	$6\frac{5}{32} - 6\frac{3}{32}$	$5\frac{17}{32} - 5\frac{27}{32}$
Japanese Yen	$\frac{1}{2} - \frac{15}{32}$	$\frac{1}{2} - \frac{15}{32}$	$\frac{17}{32} - \frac{13}{32}$	$\frac{1}{2} - \frac{1}{8}$	$\frac{9}{16} - \frac{7}{16}$	$\frac{19}{32} - \frac{15}{32}$
Asian $Sing	$3\frac{1}{4} - 3\frac{1}{8}$	$4\frac{1}{4} - 4$	$3\frac{15}{32} - 3\frac{13}{32}$	$4 - 3\frac{7}{8}$	$4 - 3\frac{7}{8}$	$4\frac{1}{8} - 4$

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.14	96.15	+0.01	96.16	96.13	12,127	40,949
Mar	95.78	95.76	-	95.78	95.73	10,151	52,700
Jun	95.47	95.49	+0.02	95.50	95.45	6,653	31,096

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jan		96.05	-0.02			0	420
Mar	95.78	95.77	-0.03	95.80	95.75	39021	325788
Jun	95.48	95.47	-0.04	95.52	95.45	48134	280252
Sep	95.27	95.24	-0.05	95.29	95.23	27214	195883

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Nov		96.42	-0.01			0	80
Dec	96.14	96.12	-	96.14	96.14	200	5914
Jan		96.16	+0.02			0	200
Feb		96.03	-0.02			0	50

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.89	93.78	-0.12	93.90	93.77	34482	110994
Mar	94.58	94.46	-0.11	94.58	94.46	19107	102625
Jun	94.81	94.84	-0.12	94.93	94.84	24898	92857
Sep	94.90	94.85	-0.10	94.92	94.85	10561	81905

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.95	97.91	-0.05	97.96	97.89	5459	82188
Mar	97.72	97.67	-0.06	97.73	97.64	3608	45441
Jun	97.49	97.43	-0.07	97.50	97.41	3511	27242
Sep	97.31	97.27	-0.05	97.32	97.26	885	18289

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		99.46	-0.01			0	na
Mar		99.44	-			0	na
Jun		99.38	-0.01			0	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.34	95.34	-0.02	95.36	95.33	676	10840
Mar	95.21	95.21	-0.02	95.24	95.20	328	8294
Jun	95.14	95.13	-0.02	95.15	95.13	146	5864
Sep	95.05	95.04	-0.03	95.05	95.04	139	6314

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9375	0.17	0.80	1.13	0.13	0.06	0.04
9400	0.06	0.59	0.61	0.27	0.10	0.07
9425	0.01	0.40	0.70	0.47	0.18	0.11

Est. vol. total, Calls 6938 Puts 2520. Previous day's open int., Calls 231694 Puts 119267

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 21		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.25	4.861	1.855	4731	5.465	19.55	493.5	409.3	20.89	4.033	1.662	3.778	2.718	327.2	2.458
Denmark	(DKr)	54.14	10	8.799	2.627	1.004	2561	2.959	10.58	267.2	221.6	11.31	2.183	0.900	2.044	1.471	177.2	1.331
France	(FFr)	61.53	11.36	10	2.985	1.141	2911	3.362	12.03	303.6	251.6	12.85	2.481	1.023	2.323	1.672	201.3	1.512
Germany	(DM)	20.61	3.807	3.350	1	0.382	975.2	1.126	4.029	101.7	84.36	4.306	0.831	0.343	0.778	0.560	67.45	0.507
Ireland	(I£)	53.91	9.958	8.762	2.616	1	2551	2.946	10.54	266.1	220.6	11.26	2.174	0.896	2.035	1.465	176.4	1.325
Italy	(L)	2.114	0.390	0.344	0.103	0.039	100	0.116	0.413	10.43	8.650	0.442	0.085	0.035	0.080	0.057	6.916	0.052
Netherlands	(Fl)	18.30	3.380	2.974	0.888	0.339	865.8	1	3.577	90.31	74.89	3.823	0.738	0.304	0.691	0.497	59.88	0.450
Norway	(NKr)	51.16	9.450	8.315	2.482	0.946	2421	2.796	10	252.5	209.4	10.69	2.063	0.851	1.932	1.390	167.4	1.258
Portugal	(Es)	20.26	3.743	3.293	0.983	0.376	958.7	1.107	3.961	100	82.93	4.234	0.817	0.337	0.765	0.551	66.31	0.498
Spain	(Pta)	24.43	4.513	3.971	1.185	0.453	1158	1.335	4.776	120.6	100	5.105	0.985	0.406	0.923	0.664	79.96	0.601
Sweden	(SKr)	47.86	8.841	7.779	2.322	0.888	2265	2.616	9.355	236.2	195.9	10	1.930	0.796	1.807	1.301	156.6	1.177
Switzerland	(SFr)	24.80	4.580	4.030	1.203	0.460	1173	1.355	4.847	122.4	101.5	5.181	1	0.412	0.936	0.674	81.15	0.610
UK	(£)	60.18	11.11	9.777	2.918	1.116	2846	3.287	11.76	296.9	246.2	12.57	2.426	1	2.271	1.635	196.9	1.479
Canada	(C$)	26.49	4.892	4.305	1.285	0.491	1253	1.447	5.177	130.7	108.4	5.534	1.068	0.440	1	0.720	86.67	0.651
USA	($)	36.80	6.796	5.980	1.785	0.683	1741	2.011	7.192	181.6	150.6	7.687	1.484	0.612	1.389	1	120.4	0.904
Japan	(Y)	30.56	5.645	4.967	1.483	0.567	1446	1.670	5.973	150.8	125.1	6.385	1.232	0.508	1.154	0.831	100	0.751
Ecu	-	40.68	7.515	6.612	1.974	0.755	1925	2.223	7.952	200.8	166.5	8.500	1.641	0.676	1.536	1.106	133.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5660	0.5635	-0.0024	0.5670	0.5624	19,684	88,485
Mar	0.5657	0.5662	-0.0025	0.5662	0.5656	102	2,558
Jun	-	0.5713	-	-	-	2	2,816

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6831	0.6797	-0.0034	0.6847	0.6787	16,068	41,215
Mar	0.6856	0.6863	-0.0032	0.6871	0.6856	295	1,968
Jun	0.6928	0.6925	-0.0033	0.6930	0.6925	3	267

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8316	0.8348	+0.0032	0.8383	0.8308	14,536	85,733
Mar	0.8480	0.8468	+0.0038	0.8482	0.8480	47	900
Jun	-	0.8546	-	-	-	13	173

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6294	1.6316	+0.0022	1.6366	1.6266	25,175	34,971
Mar	1.6260	1.6270	+0.0030	1.6270	1.6250	13	260
Jun	-	1.6220	+0.0034	1.6220	-	52	27

UK INTEREST RATES

LONDON MONEY RATES

Oct 21	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	$7\frac{1}{2} - 6\frac{1}{2}$	$7\frac{3}{16} - 7$	$7\frac{5}{16} - 7\frac{1}{16}$	$7\frac{13}{32} - 7\frac{7}{32}$	$7\frac{15}{32} - 7\frac{13}{32}$	$7\frac{9}{16} - 7\frac{15}{32}$
Sterling CDs	-	-	$7\frac{1}{8} - 7\frac{1}{16}$	$7\frac{9}{32} - 7\frac{7}{32}$	$7\frac{13}{32} - 7\frac{3}{32}$	$7\frac{15}{32} - 7\frac{11}{32}$
Treasury Bills	-	-	$7\frac{1}{16} - 6\frac{15}{16}$	$7\frac{1}{8} - 7$	-	-
Bank Bills	-	-	$7 - 6\frac{15}{16}$	$7\frac{1}{8} - 7\frac{1}{16}$	$7\frac{7}{32} - 7\frac{5}{32}$	-
Local authority deps.	$6\frac{7}{8} - 6\frac{3}{4}$	$7 - 6\frac{7}{8}$	$7\frac{1}{16} - 7$	$7\frac{3}{16} - 7\frac{1}{8}$	$7\frac{3}{16} - 7\frac{7}{32}$	$7\frac{13}{32} - 7\frac{5}{16}$
Discount Market deps	$7 - 6\frac{7}{8}$	$7 - 6\frac{7}{8}$	-	-	-	-

UK clearing bank base lending rate 7 per cent from Aug 7, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	$2\frac{1}{2}$	$5\frac{1}{2}$	5	5	$4\frac{3}{4}$

Certs of Tax dep. under £100,000 is $2\frac{1}{2}$pc. Deposits withdrawn for cash $1\frac{1}{4}$pc. Ave. tender rate of discount on Oct 17, 6.9377pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1997. Agreed rate for period Oct 28, 1997 to Nov 25, 1997, Scheme III 8.54pc. Reference rate for period Aug 30, 1997 to Sep 30, 1997, Schemes IV & V 7.294pc. Finance House Base Rate $7\frac{1}{2}$pc from Oct 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.66	92.64	-0.02	92.66	92.62	19041	134327
Mar	92.62	92.62	-0.01	92.65	92.60	21632	114497
Jun	92.65	92.65	-0.01	92.68	92.62	23267	84197
Sep	92.68	92.70	-	92.74	92.67	9579	63289
Dec	92.78	92.80	-0.01	92.83	92.78	5940	62838

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9250	0.17	0.22	0.33	0.03	0.10	0.16
9275	0.03	0.09	0.19	0.14	0.22	0.29
9300	0	0.03	0.10	0.36	0.41	0.45

Est. vol. total, Calls 6178 Puts 2515. Previous day's open int., Calls 202111 Puts 222052

EMS EUROPEAN CURRENCY UNIT RATES

Oct 21	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.755248	+0.004483	-5.44	8.41	37
Finland	5.85424	5.90320	+0.01103	0.84	1.66	-6
Italy	1906.48	1925.33	+2.49	0.99	1.51	-7
Spain	163.826	166.391	+0.084	1.57	0.93	-11
Portugal	197.398	200.946	+0.185	1.80	0.70	-12
Denmark	7.34565	7.51316	+0.00535	2.28	0.22	-16
France	6.45863	6.61387	+0.00547	2.40	0.11	-20
Belgium	39.7191	40.6783	+0.0291	2.41	0.09	-16
Netherlands	2.16979	2.22305	+0.00214	2.45	0.06	-18
Germany	1.92573	1.97327	+0.00195	2.47	0.04	-24
Austria	13.5485	13.8888	+0.014	2.51	0.00	-16
NON ERM MEMBERS						
Greece	295.269	309.011	+0.312	4.65	-2.05	-
UK	0.793103	0.677867	-0.004509	-14.55	16.97	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.630	2.16	2.63	3.21	1.05	1.72	2.51
1.640	1.61	2.14	2.70	1.47	2.00	2.95
1.650	1.16	1.70	2.30	2.04	2.70	3.52

Previous day's vol., Calls 1,368 Puts 1,382. Prev. day's open int., Calls 26,827 Puts 23,865

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
0.555	0.97	1.17	1.47	0.37	0.61	0.79
0.560	0.58	0.89	1.18	0.57	0.80	1.00
0.565	0.41	0.86	0.95	0.88	1.07	1.28

Previous day's vol., Calls 1,077 Puts 1,152. Prev. day's open int., Calls 11,240 Puts 30,557

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.10	94.10	+0.01	94.10	94.09	62,031	573,799
Mar	94.01	94.01	-	94.02	94.00	66,301	439,140
Jun	93.92	93.92	-	93.93	93.90	36,834	345,257

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	95.06	95.05	-	95.06	95.05	988	4,789
Mar	95.03	95.03	-0.01	95.03	95.03	182	4,334
Jun	-	94.96	+0.01	-	-	59	337

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9575	0.37	0.38	0.13	0.16	0	0.01	0.11	0.14
9600	0.14	0.16	0.03	0.05	0.02	0.04	0.26	0.28
9625	0.01	0.04	0.01	0.01	0.14	0.17	0.49	0.46
9650	0	0	0	0	0.38	0.38	0.73	0.73
9675	0	0	0	0	0.63	0.63	0.98	0.98

Est. vol. total, Calls 9188 Puts 2067. Previous day's open int., Calls 345130 Puts 289745

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9800	0.10	0.10	0.09	0.19	0.43	0.66
9825	0.03	0.04	0.04	0.37	0.62	0.86

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3125 Puts 2819

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Exeter Trust Limited	8.00	●Singer & Friedlander	7.00
Allied Irish Bank (GB)	7.00	Financial & Gen Bank	8.00	●Smith & Williamson Secs	7.00
●Henry Ansbacher	7.00	●Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	●Guinness Mahon	7.00	TSB	7.00
Bank of Cyprus	7.00	Habib Bank AG Zurich	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	●Hambros Bank	7.00	Unity Trust Bank Plc	7.00
Bank of India	7.00	Heritable & Gen Inv Bk	7.00	Whiteaway Laidlaw	7.00
Bank of Scotland	7.00	C. Hoare & Co	7.00	Yorkshire Bank	7.00
Barclays Bank	7.00	Hongkong & Shanghai	7.00		
Brit Bk of Mid East	7.00	Investec Bank (UK) Ltd	7.00	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.00	Julian Hodge Bank	7.00		
Citibank NA	7.00	●Leopold Joseph & Sons	7.00	* In administration	
Clydesdale Bank	7.00	Lloyds Bank	7.00		
The Co-operative Bank	7.00	Midland Bank	7.00		
Coutts & Co	7.00	NatWestminster	7.00		
Cyprus Popular Bank	7.00	●Rea Brothers	7.00		
Duncan Lawrie	7.00	Royal Bk of Scotland	7.00		
		Scottish Widows Bank	7.00		

COMPANY NOTICES

COMMODITIES AND AGRICULTURE

Russia rejoins De Beers' diamond cartel

By Kenneth Gooding, Mining Correspondent

Russia yesterday rejoined the diamond cartel organised by De Beers, of South Africa, ending two years of acrimony and bitterness between the two biggest diamond producers.

The news calmed nerves in the diamond trade – and it will also give a boost to Russia's mining industry as a group of western banks, led by NatWest Markets, is now ready to pay over the initial tranche of a US$500m loan to Almazy-Rossi-Sakha, Russia's biggest diamond producer.

De Beers ended its formal links with Russia at the end of last year and the loan facility, to refurbish ARS's mines, has been held up until a new contract was signed.

The contract will involve De Beers' London based Central Selling Organisation selling at least US$550m of Russian diamonds a year, and up to $1.2bn-worth.

Russia accounts for about 25 per cent of world rough, or uncut, diamond production. De Beers, with its own output in South Africa and via associate companies in Botswana and Namibia, accounts for 50 per cent.

However, the new contract is of short duration to see if Russia can live up to the terms and spirit of the new agreement. It becomes effective on December 1 and expires at the end of 1998 when, if the partners agree, it can be extended for another two years.

After signing the contract in Moscow yesterday, Nicky Oppenheimer, chairman-elect of De Beers, said the diamond industry would be "watching extremely carefully to see how the relationship will work from now on".

In London, Tim Capon, a De Beers director, said the deal was good for industry confidence. "It removes an element of uncertainty about what the Russians would do with their diamond industry," he said, adding that the new arrangement had the full backing of President Yeltsin and Russian government.

Marcel Pruwer, an Antwerp diamond broker and consultant, said the wholesale trade was very happy to see the deal signed. "If it works out, it is an important milestone for the industry," he said. "In particular, it endorses De Beers' single channel marketing."

The deal had been expected, and De Beers' share price ended virtually unchanged yesterday. "The problem in the diamond market at the moment is not supply but demand," said one analyst "Sales in Japan and Asia are very weak and De Beers will do well to keep sales at last year's level."

Terms of the contract prevent Russia from "cherry picking", or removing the best diamonds, because De Beers will take $550m a year of fresh, "run of mine" output. The maximum would be 26 per cent of the CSO's sales which totalled $4.3bn last year.

Russia can export some diamonds directly to check the CSO'a valuations, and a joint "Observation Council" is being set up to study the global market. As long as they can meet the criteria set by the CSO, De Beers will also invite some Russian processing factories to its "sights" or sales.

See Observer

Rain lifts Australian crop yield prospects

By Elizabeth Robinson, in Sydney

Recent rainfall in crop-growing regions of Australia has improved the prospects of winter crop yields, according to the Australian Bureau of Agriculture and Resource Economics.

However, total production is still forecast to be about 23 per cent lower than last year's 36m tonnes.

Below-average rainfall in South Australia and Victoria is likely to cut wheat production in those regions by about one-third, leaving the total harvest for the country at about 17.6m tonnes, compared with 23.7m tonnes last year.

The fall has been limited by well-timed rain in parts of Queensland and Western Australia.

"Seasonal conditions have been especially good in Western Australia, where near record production is expected," said Stephen Beare, Abare's acting executive director.

Abare has lifted its estimate for coarse grain yield by 18 per cent to 7.1m tonnes, which is still 23 per cent lower than last year's production.

The forecast for barley production in particular was raised to 5.5m tonnes from 4.1m tonnes, because of substantial rain in Western Australia.

Rain in the next few weeks could lift the quality and yield of coarse grains further.

The canola harvest is likely to rise 30 per cent to 832,000 tonnes after the area of planting was increased 50 per cent.

The prospects for summer crops have also improved. Mr Beare said that good rains in Queensland and in some areas of New South Wales had improved conditions for summer plantings.

Better production outlook hits cocoa

MARKETS REPORT

By Gary Mead and Kenneth Gooding

The main soft commodities exchanges caught up yesterday with a widening belief that the outlook for 1998's cocoa production in West Africa is much better than previously anticipated.

More than 2 per cent was cut from tha benchmark December cocoa futures contract on the London International Financial Fntures Exchange. December closed down £25 at £1,072 a tonne.

New York'a Coffee, Sugar and Cocoa Exchange opened similarly depressed, with the December cocoa future initially dropping $22 to $1,621 a tonne, and sliding a further $5 by midday. Cocoa prices on the CSCE have fallen by more than $100 a tonne in the last two weeks.

The increasingly bearish attitude on cocoa has been well flagged by a number of analysts, including Judy Ganes, soft commodity specialist at Merrill Lynch. In her most recent report she pointed out that while global cocoa production normally falls during El Niño years, this abnormal weather system had "naver impacted all three geographic production areas [Asia, Latin America and West Africa] at the same time" in almost 50 years.

Yesterday's downward pressure was reinforced by reports from Abidjan that Ivory Coast now looks headed for a crop in 1997-98 of more than 1.1m tonnes, the same as 1996-97 and only slightly less than the 1995-96 record of 1.2m tonnes.

The impact of El Niño on non-African producers may produce a shortfall in 1998 of as much as 200,000 tonnes; but with global stocks now of more than 1m tonnes, the medium-term outlook is for plentiful supplies.

Continued heavy investment fund selling knocked a further 3.5 per cent off coffee futures on Liffe yesterday, with the January contract down $47 to $1,465 a tonne at $1,458. On the CSCE tha same downward trend was apparent. Tha December future was 0.20 cents weaker by midday, at 150.50 cents a pound.

Brent crude oil futures opened slightly stronger on London's International Petroleum Exchange, with the December contract gaining 12 cents to $19.89 a barrel by midday.

The rally failed to consolidate, however, after a weak opening of the New York Mercantile Exchange, where the November cruda contract had increased by just 1 cent by midday, to $20.71 a barral, as the market awaited the latest oil statistics from the American Petroleum Institute. The expectation was that the API would show crude stocks up by some 1m barrels. December Brent later back-tracked to $19.76 a barrel, still 3 cents abova the day's low.

On the London Metal Exchange selling by investment funds and other speculators drove down prices of aluminium, copper and nickel. Aluminium for delivery in three months fell by 1.6 per cent to $1,598 a tonne.

"Fund selling currently has the npper hand and trade buying is pusbed to one sida," said Martin Squires, analyst at Rudolf Wolff, a subsidiary of Noranda of Canada. "Despite the weakness that aluminium has shown over the past week, trade buyers seem keen to enter the market as these levels."

Three-month copper dropped by 2.4 per cent to $2,088 a tonne. "Further selling pressure might be seen," said Mr Squires. Three-month nickel slipped by $40 a tonne, or 0.6 per cent, to $6,450.

Exploration spending to rise

By Kenneth Gooding, Mining Correspondent

International mining companies will spend about US$5.1bn exploring for non-ferrous metals and minerals this year – 11 per cent more than the $4.6bn they spent in 1996, according to Matals Economics Group, the Canadian consultancy.

Latin America is the top region for exploration, for the fourth successive year, but in 1997 spending in Africa is showing the biggest growth, with an increase of 54 per cent. Canada is the only area showing a decrease in expenditure this year compared with 1996.

Nearly all of the exploration budgets were put in place before the Bre-X scandal which rocked the mining industry in April.

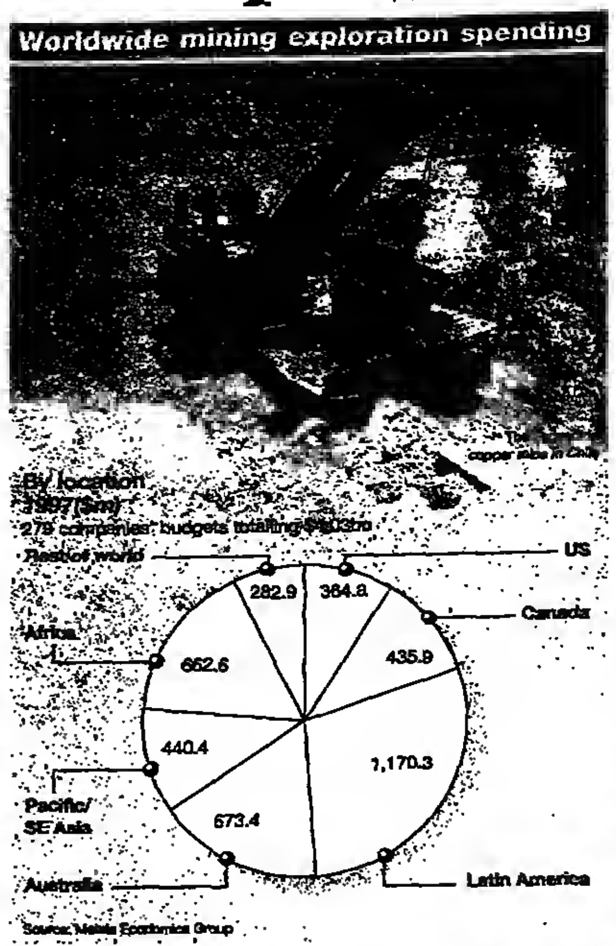
The small Canadian company claimed that it had discovered the world's biggest gold deposit – at the Busang site on the island of Borneo in Indonesia.

However, tha mine turned out to be a fraud. Gold had been added to the ore samples – a process known as "salting".

Dominique di Gesu, managing editor of MEG's strategic reports, said any impact from Bre-X would be felt in the 1998 figures.

"We have a feeling, and that's all it is, that exploration expenditure has peaked," she added.

Worldwide mining exploration spending



Source: Metals Economics Group

MEG has studied the exploration plans of 279 companies representing $4.03bn in corporate exploration expenditure or about 79 per cent of the global total. This is up from $3.52bn for 223 companies in 1996.

The global total of $5.1bn includes MEG's estimates for budgets it was not able to obtain, exploration spending by private companies that do not publish their statistics and exploration by small companies that are each spending less than $3m on their exploration programmes.

Tha surveyed companies have budgeted to spend $1.17bn, or 29 per cent of the total, in Latin America. This compares with $963.2m in 1996, when Latin America's share of the total was 27.3 per cent.

Budget allocations for Africa jumped from 11.9 per cent of the total in 1996 to 16.5 per cent, rising from $418.3m to $662.6m.

MEG points out that "increases in expenditure in other regions are quite modest this year".

Budget allocations for the Pacific/south-east Asia region are up by 6.2 per cent from $414.6m to $440.4m. MEG's "rest of the world" category shows a 9 per cent rise, from $258.5m to $282.9m, while exploration in the US is increasing by 6.3 per cent, from $342.8m to $364.6m.

Allocations for Australia are up by only 1.1 per cent, from $665.9m to $673.4m while in Canada spending is scheduled to fall by 5.4 per cent, from $460.8m to $433.9m.

Corporate Exploration Strategies: a Worldwide Analysis. MEG, PO Box 2206, Halifax, Nova Scotia, B3J 3C4, Canada. US$9,000.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1576-77	1604-05
Previous	1592.5-93.5	1618.5-19.5
High/low		1624/1594
AM Official	1582-82.5	1610-11
Kerb close		1596-99
Open int.	238,810	
Total daily turnover	137,110	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1430-35	1455-60
Previous	1443-48	1470-73
High/low		1475/1460
AM Official	1438-43	1465-67
Kerb close		1455-60
Open int.	5,120	
Total daily turnover	1,927	

■ LEAD ($ per tonne)

Close	598-9	611-2
Previous	600-1	612-3
High/low		611/609
AM Official	598-9	610-1
Kerb close		610-11
Open int.	29,673	
Total daily turnover	6,877	

■ NICKEL ($ per tonne)

Close	6360-70	6450-55
Previous	6420-30	6505-15
High/low		6510/6450
AM Official	6380-85	6475-80
Kerb close		6450-55
Open int.	54,393	
Total daily turnover	18,967	

■ TIN ($ per tonne)

Close	5365-75	5410-15
Previous	5440-50	5475-80
High/low		5490/5405
AM Official	5395-405	5445-50
Kerb close		5450-55
Open int.	15,848	
Total daily turnover	6,462	

■ ZINC, special high grade ($ per tonne)

Close	1250-51	1270-71
Previous	1260-61	1279-80
High/low		1285/1260
AM Official	1263-64	1280-80.5
Kerb close		1270-71
Open int.	78,803	
Total daily turnover	26,655	

■ COPPER, grade A ($ per tonne)

Close	2069-70	2084.5-85.5
Previous	2125-26	2142-43
High/low	2101	2138/2081
AM Official	2100-01	2118-19
Kerb close		2088-90
Open int.	146,484	
Total daily turnover	58,471	

■ LME AM Official £/$ rate: 1.6360
LME Closing £/$ rate: 1.6345

Spot: 1.6337 3 mths: 1.6278 6 mths: 1.6228 9 mths: 1.6178

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	94.00	−1.95	95.00	93.00	271	865
Nov	94.45	−1.95	96.40	93.70	315	2,522
Dec	94.90	−2.05	97.10	93.35	12,586	27,294
Jan	95.20	−1.75	96.20	94.50	125	1,069
Feb	95.20	−1.65	95.35	95.00	11	1,157
Mar	95.30	−1.50	96.50	94.50	755	6,572
Total					14,639	58,752

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	323.00-323.50		
Opening	323.00-323.30		
Morning fix	323.00	197.276	476.037
Afternoon fix	323.30	197.626	478.258
Day's High	324.20-324.50		
Day's Low	322.50-322.80		
Previous close	323.80-324.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.71	6 months	2.87
2 months	2.71	12 months	3.17
3 months	2.83		

Silver Fix	p/troy oz.	US cts equiv.
Spot	302.85	495.50
3 months	306.05	498.90
6 months	309.15	502.25
1 year	315.55	509.55

Gold Coins	$ price	£ equiv.
Krugerrand	327-329	200-201
Maple Leaf	-	-
New Sovereign	76-78	46-48

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	322.3	−0.7	323.8	322.5	6	129
Nov	322.8	−0.8	–	–	303	1
Dec	323.9	−0.9	325.5	323.8	21,461	80,374
Feb	325.5	−0.7	327.0	325.3	3,435	27,256
Apr	327.3	−0.6	328.1	326.8	40	6,015
Jun	329.4	−0.4	330.3	329.5	152	9,782
Total					26,118	173,987

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	423.5	+4.3	427.5	427.5	6	150
Jan	425.8	+4.3	427.0	421.5	2,008	13,152
Apr	421.0	+4.3	419.0	419.0	–	942
Jul	417.5	+4.3	–	–	1	21
Total					2,014	14,265

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	206.70	−3.65	208.00	204.00	337	3,779
Mar	203.20	−3.45	202.50	202.00	24	648
Jun	199.70	−3.45	–	–	4	111
Sep	193.70	−3.45	–	–	–	2
Total					392	4,545

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	494.7	+4.2	–	–	100	101
Nov	496.0	+4.0	–	–	–	1
Dec	497.8	+4.0	499.0	492.0	11,637	66,905
Jan	499.1	+4.0	–	–	5	20
Mar	503.7	+4.0	505.0	500.0	1,199	19,297
May	506.4	+4.0	504.5	504.5	1,723	2,685
Total					13,077	99,632

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	20.67	−0.03	20.77	20.55	31,113	33,368
Dec	20.90	−0.01	21.04	20.80	48,099	110k
Jan	20.94	−0.01	21.03	20.88	15,585	51,542
Feb	20.96	+0.10	20.98	20.84	3,476	29,335
Mar	20.88	+0.07	20.90	20.78	3,244	16,498
Apr	20.80	+0.06	20.82	20.67	3,161	13,447
Total					113,943	417,246

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	19.79	+0.02	19.90	19.73	11,462	75,611
Jan	19.81	+0.02	19.90	19.76	2,128	34,770
Feb	19.80	+0.06	19.84	19.70	471	14,293
Mar	19.68	+0.07	19.70	19.59	495	5,301
Apr	19.56	+0.08	19.56	19.48	61	3,354
May	19.35	-	19.36	19.35	1,900	3,894
Total					19,836	161,813

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	57.75	−0.07	58.40	57.30	10,325	35,684
Dec	58.80	+0.10	59.20	58.30	10,156	45,130
Jan	59.40	+0.10	59.60	59.20	2,807	22,491
Feb	58.60	+0.15	58.75	58.30	1,287	12,225
Mar	58.70	-	58.75	58.70	861	8,394
Apr	57.15	+0.10	57.15	57.15	441	5,035
Total					26,693	143,225

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	179.25	-	180.50	-	5,265	35,333
Dec	180.75	+0.50	182.00	180.25	2,279	20,329
Jan	182.00	+0.75	182.50	181.50	1,435	15,185
Feb	182.00	+0.50	182.25	181.50	1,008	7,539
Mar	179.50	+0.50	180.00	178.00	723	5,137
Apr	176.75	+0.50	177.50	176.50	810	2,411
Total					13,576	100,987

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Nov	13.300	+0.050	13.650	13.300	305	1,200
Dec	15.800	+0.150	15.800	15.580	25	1,435
Total					640	12,385

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	3.470	+0.080	3.480	3.225	31,303	44,148
Dec	3.560	+0.085	3.580	3.435	17,986	44,075
Jan	3.505	+0.070	3.505	3.400	7,999	28,448
Feb	3.095	+0.045	3.110	3.025	3,977	21,644
Mar	2.750	+0.020	2.780	2.715	1,869	15,158
Apr	2.420	+0.005	2.450	2.400	1,225	9,371
Total					67,011	240,545

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	59.10	−0.56	60.00	58.80	7,710	28,650
Dec	58.85	−0.35	59.45	58.70	4,778	22,641
Jan	58.00	−0.10	58.15	58.70	2,125	18,276
Feb	59.10	−0.25	–	–	750	6,991
Mar	58.70	−0.15	59.70	59.70	665	5,193
Apr	62.30	–	–	62.10	1,650	4,178
Total					18,973	93,684

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	83.65	−1.45	84.60	83.65	184	1,250
Jan	85.65	−1.45	86.50	85.65	298	3,281
Mar	87.80	−1.50	88.80	87.75	165	2,905
May	89.60	−1.50	90.80	89.80	247	2,036
Jul	91.60	−1.50	93.25	93.00	10	193
Total					884	9,886

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	376.00	+5.50	377.00	369.50	14,865	59,162
Mar	389.00	+5.75	389.50	382.50	3,303	27,154
May	395.25	+5.00	395.50	389.50	638	5,349
Jul	398.00	+5.50	398.00	389.50	530	13,055
Sep	399.50	+5.50	380.00	390.00	11	88
Dec	409.00	+4.00	409.00	406.00	100	2,938
Total					19,437	107,775

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	287.50	+4.50	288.50	282.00	43,304	210,325
Mar	297.00	+4.75	297.75	291.25	10,957	94,987
May	302.75	+4.75	303.75	297.75	3,034	28,077
Jul	306.75	+4.75	307.75	301.00	4,577	36,774
Sep	295.75	+3.50	296.75	293.00	888	3,107
Dec	294.50	+4.50	295.50	290.00	3,056	21,987
Total					65,771	395,466

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	76.90	+0.15	77.00	76.65	317	848
Jan	79.90	+0.05	80.00	79.75	275	1,063
Mar	82.40	−0.10	82.50	82.45	25	376
May	84.25	–	–	–	–	23
Sep	83.00	–	–	–	–	6
Total					617	2,336

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	694.75	+3.75	699.00	687.00	48,155	74,092
Jan	700.25	+6.25	704.50	691.50	16,248	44,743
Mar	708.50	+5.75	711.50	698.00	6,957	19,882
May	713.75	+6.25	718.00	705.00	2,826	14,584
Jul	729.75	+7.25	724.50	711.00	2,825	13,003
Aug	716.50	+5.50	717.00	708.00	18	477
Total					77,826	173,306

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.60	+0.19	24.55	24.35	223	448
Dec	24.90	+0.20	24.93	24.57	6,489	56,051
Jan	25.12	+0.22	25.10	24.78	2,609	22,502
Mar	25.31	+0.18	25.38	25.00	798	11,667
May	25.40	+0.14	25.43	25.03	507	7,434
Jul	25.52	+0.14	25.50	25.25	313	8,080
Total					18,940	107,779

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	225.2	+3.7	225.7	220.5	2,873	1,918
Dec	222.6	+1.0	224.8	220.0	16,990	45,146
Jan	222.2	+1.5	224.0	219.0	3,789	20,410
Mar	219.4	+1.2	221.5	216.4	1,598	19,467
May	218.6	+1.0	220.5	215.5	1,717	16,003
Jul	220.4	+1.4	221.0	219.5	1,132	10,872
Total					28,978	118,346

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	30.0	−20.0	30.0	30.0	–	0
Mar	81.0	−4.0	–	–	–	–
Apr	118.0	−4.0	118.0	118.0	51	1,130
May	126.0	−4.0	–	–	–	22
Jun	138.0	−4.0	–	–	–	–
Total					58	1,159

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1330	+4	1340	1329	55	865
Nov	1405	+15	1405	1395	66	865
Dec	1430	+30	1415	1415	12	100
Jan	1440	+35	1440	1425	23	636
Apr	1450	+20	1430	1430	1	317
Total					148	2,783

	Close	Prev
BFI	1336	1343

PULP AND PAPER

■ PULPEX OMLX ($/t; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	598.00	+3.00	596.00	595.00	10	245
Total					115	524

FUTURES DATA
All futures data supplied by CMS.

Minor metals from Metal Bulletin
European free market, $ per lb in warehouse, unless otherwise stated (brackets where changed). Antimony: 99.65%, $ per tonne, 1,850-1,920 (1,860-1,920). Bismuth: min. 99.99%, tonne lots 3.30-3.50. Cadmium: min. 99.95%, cents a pound, 40.00-50.00. Cobalt: MB free market, min. 99.8%, 23.00-23.50; min. 99.3%, 17.50-18.30 (17.80-18.50). Mercury: min. 99.99%, $ per 76 lb flask, 140-150. Molybdenum: 3.80-4.00 (4.10-4.25). Selenium: min 99.5%, 2.00-3.00. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, CIF, 40-45. Vanadium: min. 98%, CIF, 4.12-4.22 (4.08-4.12). Uranium: Nuexco unrestricted exchange value, 9.20.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1075	−21	1103	1072	3,861	46,743
Mar	1102	−18	1126	1096	3,349	52,824
May	1120	−18	1142	1120	933	23,577
Jul	1138	−18	1156	1139	713	8,911
Sep	1156	−18	1173	1155	808	18,269
Dec	1167	−19	1188	1164	1,582	19,058
Total					12,721	188,764

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1599	−44	1634	1596	2,576	39,697
Mar	1637	−41	1668	1632	732	28,111
May	1659	−39	1687	1655	241	12,744
Jul	1679	−38	1706	1678	57	3,835
Sep	1699	−36	1705	1700	11	4,771
Dec	1718	−34	1745	1718	71	9,100
Total					3,693	109,854

■ COCOA (ICCO) (SDR's/tonne)

Oct 20	Price	Prev. day
Daily	1274.18	1277.46

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1445	−47	1508	1435	2,759	11,025
Jan	1458	−47	1522	1451	9,550	18,112
Mar	1470	−48	1530	1465	2,800	6,862
May	1476	−48	1538	1479	160	1,590
Jul	1488	−48	1505	1505	75	507
Sep	1496	−48	1590	1590	20	225
Total					15,522	38,151

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	150.20	−0.50	152.50	149.00	3,962	11,815
Mar	140.50	+0.90	141.50	139.60	1,610	7,943
May	137.00	+0.25	138.00	136.50	324	2,528
Jul	134.00	+0.75	135.25	133.50	374	2,339
Sep	129.75	+1.00	130.00	129.50	122	739
Dec	125.75	+1.00	126.00	125.50	90	826
Total					6,696	26,004

■ COFFEE (ICO) (US cents/pound)

Oct 20		Prev. day
Comp. daily	115.92	117.94
15 day average	124.91	125.55

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	300.5	−1.1	302.0	300.3	1,429	9,857
Mar	306.6	−1.0	308.5	306.5	654	16,157
May	311.7	−1.1	312.5	311.7	319	2,963
Aug	315.0	−1.8	316.5	315.2	188	2,264
Oct	312.5	−0.8	314.0	314.0	2	3,027
Dec	315.2	−1.1	315.0	315.0	20	124
Total					2,820	34,403

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.74	−0.11	11.82	11.73	13,234	89,696
May	11.75	−0.11	11.84	11.75	2,290	25,157
Jul	11.65	−0.12	11.76	11.65	542	10,183
Oct	11.61	−0.12	11.71	11.60	474	15,808
Mar	11.52	−0.12	11.61	11.53	323	4,228
May	11.46	−0.12	11.56	11.53	24	253
Total					16,977	155,466

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	72.18	+1.08	72.45	71.31	8,495	51,684
Mar	73.51	+0.98	73.80	72.80	1,312	18,508
May	74.41	+1.04	74.60	73.80	672	8,391
Jul	75.21	+0.98	75.30	74.45	473	8,014
Oct	76.45	+0.55	76.25	76.20	32	825
Dec	76.55	+0.50	76.55	76.05	553	8,679
Total					11,537	94,392

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	69.10	+0.40	69.20	68.30	2,624	11,217
Jan	72.40	+0.35	72.50	71.70	2,077	15,864
Mar	75.55	+0.40	75.70	74.90	625	9,486
May	78.65	+0.40	78.80	78.00	79	2,254
Jul	81.65	+0.40	81.25	81.20	61	1,025
Sep	84.65	+0.40	83.80	83.80	70	388
Total					11,537	94,392

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 21	Oct 20	month ago	year ago
1849.8	1852.4	1831.3	1860.0

■ CRB Futures (Base: 1967 = 100)

Oct 20	Oct 17	month ago	year ago
243.29	242.32		–

■ GSCI Spot (Base: 1970 = 100)

Oct 20	Oct 17	month ago	year ago
206.56	204.12	197.83	210.96

LME WAREHOUSE STOCKS (tonnes)

Aluminium	−1,475	to	742,475
Aluminium alloy	−320	to	47,780
Copper	−1,175	to	337,150
Lead	−300	to	118,800
Nickel	−6	to	64,686
Zinc	−2,625	to	456,075
Tin	−360	to	10,370

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	68.250	+1.125	68.550	68.800	885	2,920
Dec	66.850	+0.600	67.500	66.800	6,289	43,253
Feb	68.750	+0.425	69.325	68.550	2,388	21,090
Apr	72.425	+0.250	72.825	72.250	930	13,398
Jun	70.100	+0.375	70.500	70.025	1,036	9,379
Aug	70.000	+0.350	70.425	69.950	210	2,863
Total					11,847	93,895

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	60.175	+0.100	60.600	60.125	3,682	20,236
Feb	61.075	+0.375	61.475	60.900	1,872	8,668
Apr	58.525	−0.075	59.150	58.500	739	3,871
Jun	65.800	+0.275	65.975	65.550	385	1,761
Jul	64.150	+0.025	64.500	64.250	15	950
Aug	63.300	+0.150	62.800	62.900	28	228
Total					6,698	36,180

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	62.600	+2.800	62.800	59.825	1,023	6,752
Mar	62.300	+2.750	62.500	59.700	83	825
May	62.700	+2.150	62.950	60.750	33	211
Jul	63.700	+1.750	63.175	61.600	15	132
Aug	60.875	–	–	60.875	1	13
Total					1,154	7,996

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1575	29	74	18	42
1600	17	61	31	54
1625	9	49	48	67
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
2000	94	137	9	49
2100	57	108	22	54
2200	31	83	45	67
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1550	34	43	3	135
1600	5	22	24	174
1650	-	18	166	214
■ COCOA LIFFE	Dec	Mar	Dec	Mar
1100	23	66	47	84
1125	15	55	64	78
1150	10	46	84	94
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
1950	45	-	44	-
2000	27	74	69	-
2050	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$18.85-8.90w	+0.075
Brent Blend (dated)	$19.32-9.34	-0.005
Brent Blend (Dec)	$19.80-9.82	+0.025
W.T.I.	$20.84-0.89w	-0.030

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$208-210	-2
Gas Oil	$181-183	
Heavy Fuel Oil	$100-102	
Naphtha	$193-194	-0.5
Jet fuel	$197-198	
Diesel	$180-182	+2

■ NATURAL GAS (Pence/therm)

Bacton (Nov)	13.35-13.40	+0.125

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

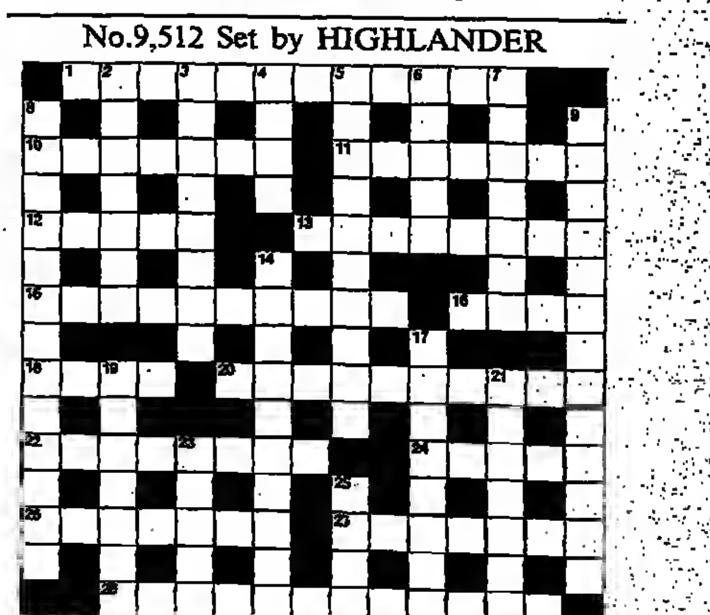
Gold (per troy oz)♣	$323.25	-0.80
Silver (per troy oz)♣	498.00c	+1.00
Platinum (per troy oz.)	$424.50	+3.00
Palladium (per troy oz.)	$207.00	-3.00
Copper	100.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	16.09r	
Tin (New York)	256.5	
Cattle (live weight)	95.63p	-1.82*
Sheep (live weight)	102.91p	-4.02*
Pigs (live weight)†	75.13p	-0.07*
Lon. day sugar (raw)	$276.20	+3.70
Lon. day sugar (wte)	$297.00	+0.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	57.00p	-1.00
Rubber (Dec)♥	57.00p	-1.00
Rubber (KL RSS No1)	282.0z	+1.0
Coconut Oil (Phil)§	$612.5z	+2.5
Palm Oil (Malay.)§	515.0z	-7.5
Copra (Phil)§	$410.0	-2.5
Soyabeans (US)	210.0	
Cotton Outlook 'A' Index	77.50c	
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Oct/Nov. w Dec. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on n/a head of pigs sold.

JOTTER PAD

CROSSWORD

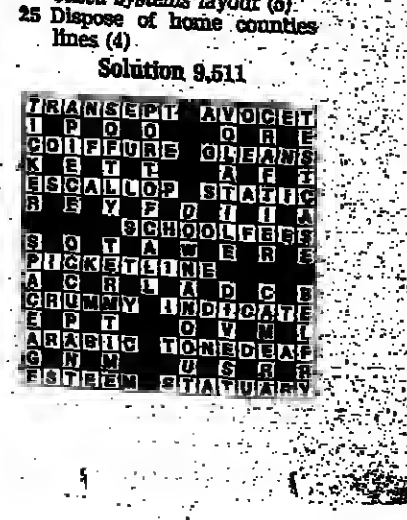
No.9,512 Set by HIGHLANDER



ACROSS
1 Substitute has to train where one can watch but not sit (8,4)
10 Thinks a lot about advertising bogs (7)
11 No way to drink patent medicine (7)
12 Italians who made instruments in a dramatic setting (5)
13 Greek and Latin races (8)
15 Chief reason for the open water jump (10)
16 Allotment scheme (4)
18 Pleasant part of France, to be precise (4)
20 One short day comes to an end and with it mutual affection (10)
22 Continued existence almost certain; oral exam taken by learner (8)
24 Long narrow raised strip but no front on refrigerator (5)
26 It's said you hit young farm animal (3,4)
27 Extraordinary pie cook does – part of a series (7)
28 Strangely, Peggy lost it protecting old student of North Africa (12)

DOWN
2 My paint is mixed in drums (7)
3 Is so organised after lifting bulbs (8)
4 Provided note should that be the case (2,2)
5 Wild West fighter comfortable about delay (10)
6 Group with nothing on in present situation (5)
7 Latin poet in military – sounds like a high-ranking officer (7)
8 Mother, boy and clergyman run badly (13)
9 A cop misses the original break into little bits (5,2,6)
14 British Queen poor performer as Uncle Remus character (4,6)
17 In love with new interior decorating (8)
19 Get up to go in the middle funeral procession (7)
21 Keeps secret about Oxford being dreadful (7)
23 Country with computer-based systems layout (5)
25 Dispose of home counties lines (4)

Solution 9,511



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FT MANAGED FUNDS SERVICE

Offshore Funds

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

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	Init Chge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Aetna Master Fund (u) (x)						
21 avenue de la Liberté, L-1931, Lux 00 352 3954 041						
Australasian NAV			A$19.30		+0.07	–
Austrian Nat NAV			Sch71.01		-0.12	–
Belgo/Lux NAV			BFr1021.71		-5.19	–
Dutch Nat NAV			Dfl57.25		+0.09	–
French Nat NAV			FFr149.65		-1.82	–
German Nat NAV			DM23.58		-0.12	–
Hongkong Nat NAV			HK$125.10		-4.53	–
Italian Nat NAV			L17082		+100	–
Japanese Nat NAV			Y1147		-1	–
Spanish Nat NAV			Pta1623		+3	–
UK Nat NAV			£13.10		-0.06	–
United States Gtr Res			$11.34		—	–
Prices quoted are "A" shares						
American Phoenix Investment Portfolios (u)						
13 rue Goethe, L-1637 Luxembourg 00 352 40464 6211						
European Multinational Ptfo			Ecu25.29		+0.32	–
European Multinational Ptfo			$28.00		+0.38	–
European Multinational Ptfo			£17.14		+0.10	–
European Multinational Ptfo			L48044		+567	–
European Multinational Ptfo			DM49.60		+0.59	–
Global Multinational Ptfo.			Ecu21.55		+0.26	–
Global Multinational Ptfo.			$25.15		+0.38	–
Global Multinational Ptfo.			£14.87		+0.09	–
Global Multinational Ptfo.			L45201		+537	–
Global Multinational Ptfo.			DM40.45		+0.56	–
US Growth Companies			$18.88		+0.25	–
US Growth Companies			£11.92		+0.09	–
US Growth Companies			L32007		+454	–
US Growth Companies			DM33.40		+0.47	–
US Real Estate Securities			$16.92		+0.04	–
US Real Estate Securities			£10.33		-0.03	–
US Real Estate Securities			L28226		+100	–
US Real Estate Securities			DM30.05		+0.1	–
BAII Asset Management Ltd						
10 Piccadilly, London W1V 0EE 0171 734 3700						
Intermarket NAV Oct 15 F.			$573.86		+0.00	–
Intermarket Fund						
Convertible (USD) Aug 31			$772.59		—	–
Convertible (FFr) Aug 31 F.			FFr3907.31		—	–
Bank Von Ernst & Cie AG						
Marktgasse 63/65, 3001 Berne, Switzerland 0041 313297777						
UK Equity			£38.61		-0.16	–
UK Smaller Cos Eqty			£20.07		-0.01	–
Nth American Equity			$17.81		+0.22	–
US Smaller Co's Eqty			$27.47		+0.18	–
Pacific Basin Equity			$12.80		-0.34	–
Japanese Equity			Y220		-8	–
European Equity			DM[illegible]		+0.03	–
Swiss Equity			SFr15.70		+0.05	–

	Init Chge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Fleming Group - Contd.						
Fleming Flagship Series 2 (Daily Dealing)						
DM Class F			DM12.821		—	2.81
FFr Class F			FFr63.258		+0.01	2.82
ITL Class F			L22024		+4.00	6.15
£ Class F			£5.405		—	6.47
US$ Class F			$12.395		—	5.36
Oasis Fund Sicav						
International Equity F	5	CE	31.381	12.2707	-0.16	–
Foreign & Colonial Emerging Markets Ltd (u)						
Exchange Hs, Primrose St, Ldn, EC2A 2NY 0171-628 1234						
F&C Emerging Markets						
Argentinian Inv Co F			$20.86		+0.45	–
Brazilian Inv Co SICAV F			$69.90		+0.01	–
Global Emerg Mkts Co SICAV F			$13.15		+0.02	–
Latin Amer Inv Co SICAV F.			$14.97		+0.19	–
Mexican Inv Co SICAV F.			$35.30		+0.36	–
Foreign & Colonial Portfolios Fd Sicav(u)						
33 Boulevard Prince Henri, L-1724 Lux 00 352 2280 211						
Am Smlr Cos Eq F			$48.33		+0.43	–
Emerging Asian Eq F			$17.51		-0.38	–
Sterling Bond F			£10.14		-0.04	–
Sterling Distribution F	5		£9.66		-0.13	–
Frontrunner I (u)						
672 rue de Neudorf, Luxembourg 00 352 43687350						
European Equities			Ecu117.40		—	–
Global Bonds			DKr179.25		—	–
Global Bonds			DM157.38		—	–
Sterling Fund			£209.38		—	–
Danish Bonds			DKr182.69		—	–
Swedish Bonds	3		SKr131.22		—	–
German Bonds			DM108.11		—	–
Dollar Bonds	3		$103.09		—	–
Scandinavian Equities			Ecu208.35		—	–
Far East Equities			$76.24		—	–
North American Equities	5		$117.89		—	–
Danish Kroner Reserve			DKr111.59		—	–
Swedish Kroner Reserve			SKr117.49		—	–
German Mark Reserve			DM108.69		—	–
US Dollar Reserve	3		$102.18		—	–
ECU Reserve			Ecu111.77		—	–
Norwegian Kroner Reserve			NKr100.61		—	–
Growth 2/1998	3		DM121.08		—	–
Bonds 2/1998	3		DM103.36		—	–
Bonds 2/1999			DM102.08		—	–
Danish Mortgage Bonds			DKr102.02		—	–
Danish Long Bonds	3		DKr104.49		—	–
GT Global						

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

PROPERTY - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
[illegible]								

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£23½		*£27¾	£20¼	1,889	3.1	◆
Barlow	♯†	593	+5	857	551	1,433	2.0	15.0
Gold Flds Prop R		163	-5	197	122	15.7	5.5	12.1
SA Brews		£17¾	+⅛	£23¼	£13¾	5,227	2.1	◆
Standard Bank		£28½	-¼	£30	£21	3,488	2.0	–
Tiger Oats	†	1102	+22	1109	790	1,987	1.3	20.4
Tongaat-Hulett		753	-2¼	780	676¼	731.2	2.5	◆

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Exstat, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ♯ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in [illegible]
P Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

All systems go as shares respond to Dow gains

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Any worriea that London's newly-launched order-driven trading system would have to *cope with another day of big falls* were erased after Wall Street's strong performance on Monday.

And there was more good news for UK equities from the Dow's opening yesterday afternoon: bumper third-quarter profits from International Business Machines, announced after hours on Monday, saw the computer *group's share jump by more than* 5 per cent. The Dow Jones Industrial Average climbed nearly 100 points, moving back above the 8,000 mark, not long after London closed.

The 74-point leap by the Dow on the tenth anniversary of its 22 per cent slide on Black Monday, provided a much needed breath*ing space for a London market* that had to contend with a number of worrying developments.

Among these was a further slide in share prices on the Hong Kong market, which fell another 4.4 per cent for a two-day decline of 9 per cent. That weakness caused plenty of problems for those stocks with close trading *links* with the *former* colony. Falls in HSBC, Standard Chartered and Cable & Wireless accounted for more than 12 FTSE 100 points.

And the continuing confusion over the Government's intentions towards European economic and monetary union brought renewed strength to sterling, which *moved* np *another* two pfennigs against the D-Mark at one point yesterday, helping the Bank of England's trade-weighted index to top the 102 level.

Currency factors were behind another dismal showing by many of the big engineering and exporting stocks, including TI. But overall it was a satisfying *day for market participants*; dealers were content to see the systems running smoothly and said they expected the day's performance to lead to much increased activity via the order book in coming weeks.

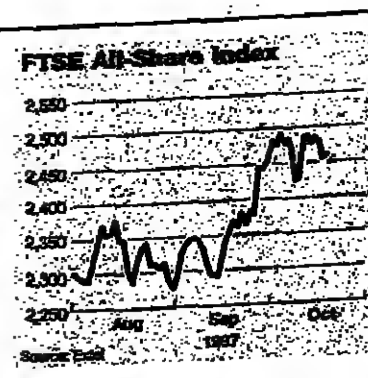
One broker said: "It was an altogether much calmer day in the market place. Everybody is becoming much more used to the new system and price mechanism."

The FTSE 100 index, severely mauled on Monday when it dropped 118 points at ons stage, cruised ahead to close with a 14.9 gain at 5,225.9, despite the burden of the three big Hoog Kong-related stocks. At its best, not long after *trading* kicked off, Footsie touched 5,257.5, up 46.5.

The FTSE 250 index nudged up 10.1 to 4,918.6, and the SmallCap put on 4.1 to 2,402.1, only *about* 4 points short of its all-time high.

Turnover picked up from the rather *tentative levels* seen on Monday, eventually reaching 730m shares, of which about 60 per cent was in non-FTSE 100 stocks. Dealers, as ever, still managed to complain about the level of turnover.

Meanwhile, the strategy team at Goldman Sachs, the US investment bank, continues to recommend UK stocks. "We *maintain* our positive stance following comments in the weekend press regarding the UK and Emu," Goldman said.



Indices and ratios

FTSE 100	5225.9	+14.9
FTSE 250	4918.6	+10.1
FTSE 350	2517.9	+6.8
FTSE All-Share	2460.98	+6.48
FTSE All-Share yield	3.17	3.18
FT 30	3416.1	+4.9
FTSE Non-Fins p/e	20.73	20.66
FTSE 100 Fut Dec	5265.0	+18.0
10 yr Gilt yield	6.68	8.66
Long gilt/equity yld ratio	2.11	2.09

Best performing sectors

1. Diversified Inds .... +2.0
2. Retailers: Food .... +1.7
3. Household Goods .... +1.4
4. Health Care .... +1.1
5. Retailers: General .... +1.1

Worst performing sectors

1. Alcoholic Beverages .... −1.4
2. Building Matls .... −1.1
3. Extractive Inds .... −0.9
4. Food Producers .... −0.8
5. Electronic & Elect .... −0.6

US news boosts BP

Encouraging figures from the US *majors* and a *broker* recommendation helped BP lift 8½ to 930p.

Exxon and Texaco reported third-quarter earnings 5 per cent ahead of consensus forecasts yesterday despite lower oil prices. The figures reflected healthy profits from refining oil into gasoline and other products.

However, oil prices were roughly 10 per cent lower than the same period last year as ample worldwide supplies kept prices from rising.

The US figures, which should he *reinforced* hy today's third-quarter numbers from Shell Oil, the US arm of Shell Transport, are expected to signal improved performance from the UK leaders.

Also, Lehman Brothers recommended the stock following a trip by investors to its operations in Azerbaijan last week.

Wolseley ran into more of the profit-taking that started when the stock reached a record high of 549p recently, and the shares surrendered 20 to 515p despite a set of strong interim *results* that showed an 8.8 per cent rise for the year to July. Analysts were said to be sticking with their previous estimates, with BZW at £288m for next year.

David Taylor at Teather & Greenwood is keeping the stock on his "buy" list in recognition of its "superb record of organic and acquisition-led growth" and its "exceptiooally robust finances".

Sentiment in the sector was helped hy comments *from Wolseley that* the UK recovery was spreading from the south-east and trading conditions in the US remained good. Graham Group firmed to 159p in brisk trade of 1.5m.

Meyer International surrendered 10½ to 400p after it said it was to raise £112m via the issue of 32m shares at 360p *each in a one-for-four* rights issue.

The money will help fund the £318m purchase of Harcros from Harrisons & Crosfield, which gained 3 to 134½p. H&C said it intended to return £359m to shareholders, amounting to 50p a share.

A feeling that brewing group Whitbread had fallen too far helped the stock reverse an initial decline that followed a hroker's downgrade.

The shares closed 6 up 781p, after they recovered from an early retreat that followed the publication of a cautious circular from Lehman Brothers. The US bank downgraded its recommeodation from "outperform" to "neutral" with the stock having met Lehman's share price target.

The team at Lehman also suggested that "while Whitbread is exploiting secular growth opportunities, the cyclical and investment driven elements of its portfolio seem to be leading to lower marginal returns. As such we can not see further multiple expansion from current levels and believe some cootractions may occur."

In the rest of the sector, Bass improved 6¼ to 843p in trade of 1.1m, but several leading sector issues remained in poor form. Greenalls Group gave up 5 to 368½p, while Wolverhampton & Dudley Breweries closed 2¼ lighter at 516½p.

Profit-taking in the spirits sector left the two leading groups moving against the firm market trend. Shares in *Guinness gave up 10* to 621p in trade of 2.4m, while Grand Metropolitan fell 14 to 615p, with some 3.9m dealt by the close.

RJB Mining, the coal company, saw its share price fall almost 24 per cent, the biggest slide among the UK's leading 350 stocks.

A "sell" note from Dresdner Kleinwort Benson, continuing concerns about RJB's talks with UK power generators and speculation about further closures of the company's collieries were principally responsible for the weakness.

The shares ended a net 56½ lower at 183½p.

Tuesday's slide in the Hong Kong market cast a shadow over several stocks in companies with substantial exposure to the region. The list inclnded Cahle & Wireless, which yesterday surreodered 16 to 517p. In *the banks*, the UK denominated 75p shares of HSBC gave up 61 to £18.55 while the Hong Kong denominated stock eased 43 to £17.78. Standard Chartered was also off, closing 22 down at 746p.

At the day's worst, the decline in the three stocks held back the FTSE 100 index by around 12.25 points.

Overall market turnover was boosted by a big stake sale in Fortune Oil. Vitol, an oil trading group, placed 63m shares at 14¼p a share rsducing its stake to 70m shares – 6 per cent of the company.

Fortune, which also announced interim figures, closed marginally easier at 14¾p with 121m changing hands.

Biocompatibles, which suffered so badly after its marketing deal with Johnson & Johnson of the US foundered, rebounded 40 to 585p. *Broker Townsley* has been recommending the stock following bullish comments, voiced at a medical conference in Paris, about the company's coronary stent product.

Seton Healthcare lifted in response to a "buy" recommendation from BZW. The shares closed 20 up at 485¼p after the investment bank highlighted Seton's double-digit earnings growth and undemanding rating.

Turnover in British Telecommunications reached a hefty 21m by the close as the *shares improved 8 to 480p.* Robert Fleming has raised its recommendation on the stock from "hold" to "buy".

Banking stocks responded to the "flight to domestic quality" argument as sterling continued its upward rise.

And Bank of Scotland, left behind recently, moved ahead 21 to 540p, having bit a record 545p. Royal Bank of Scotland moved ahead 13 in early trading but slipped back to close 5 off at 697p as a presentation by the company to fund managers failed to provide inspiration.

National Grid improved 4½ to 294½p after Dresdner Kleinwort Benson said the company's Energis unit was likely to be valued at between £1.25bn and £1.36bn when it joins the market next month.

Among transport stocks, Railtrack fell under continued profit-taking prompted by the stock's short-lived emergence above the £10 level last week.

The shares declined 14 to 968p, although the screens showed a seller determined to offer 22,000 shares at £10.05.

British Airways gained 5 to 621p after positive comment from Panmure Gordon. Nigel Davies at the broker said: "The risk-reward ratio now begins to look quite favourable given the amount of bad news the share price has discounted."

FT 30 INDEX

	Oct 21	Oct 20	Oct 17	Oct 16	Oct 15	Yr ago	*High	*Low
FT 30	3416.1	3411.2	3423.2	3430.3	3416.8	2856.8	3430.3	2668.8
Ord. div. yield	3.33	3.32	3.31	3.29	3.30	3.97	4.22	3.29
P/E ratio net	22.10	22.14	22.25	22.33	22.25	17.37	22.33	15.80
P/E ratio nil	21.80	21.84	21.94	22.02	21.95	17.21	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3411.5	3443.3	3428.9	3430.9	3434.4	3439.4	3434.7	3432.7	3435.6	3449.8	3411.5

	Oct 21	Oct 20	Oct 17	Oct 16	Oct 15	Yr ago
SEAQ bargains	49,174	56,447	46,742	48,010	45,487	38,234
Equity turnover (£m)†	-	2868.6	2868.6	2969.7	2898.7	1314.0
Equity bargains†	-	46,446	46,446	47,197	48,077	31,444
Shares traded (m)†	-	807.5	807.5	836.6	805.3	466.8

†Excluding intra-market and overseas turnover but including Crest turnover.
*For 1997.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	782	Total Highs	100	Total contracts	N/A
Total Falls	683	Total Lows	89	Calls	N/A
Same	1,588			Puts	N/A

Oct 21 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5272.0	5265.0	+16.0	5296.0	5256.0	6059	72206
Mar	5325.5	5313.5	+16.0	5325.5	5325.5	35	2166

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4940.0	+10.0			0	8534

■ FTSE 100 INDEX OPTION (LIFFE) (*5205) £10 per full index point

	[illegible]
Nov	[illegible]
Dec	[illegible]
Jan	[illegible]
Feb	[illegible]
Jun†	[illegible]

Calls 4,281 Puts 5,043

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5025		5075		5125		5175		[illegible]
Nov	284	67	227½	80½	183½	96	161½	114	[illegible]
Dec	322	100½	287	115	254½	132	223½	150	[illegible]
Jan	366½	122½	332	138	299½	155½	269	174½	[illegible]
Mar	454½	170			370	203			[illegible]
Jun†	522½	207½			459	238			[illegible]

Calls 3,311 Puts 4,548 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months. Latest data unavailable.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	431.1	180½	152½	Aggreko	165		W3.5	2.0	2.7	23.1
-	F.P.	0.74	17½	16½	†Buckland Inv	17½		-	-	-	-
-	F.P.	0.08	12	8	†Buckland Inv Wrt	10		-	-	-	-
-	F.P.	97.5	97½	94	Cairngrm Demut IT	97½		-	-	-	-
-	F.P.	-	21½	15½	Cairngrm Wrts	21½		-	-	-	-
-	F.P.	3.39	3¼	2½	†Cambury Inv	2½		-	-	-	-
-	F.P.	0.68	1½	½	†Cambury Inv Wrts	¾		-	-	-	-
-	F.P.	127.5	174	155½	Creative Publish	158		LW7.0	1.4	5.5	16.1
§134	F.P.	7.08	147½	134½	†I S Solutions	147½		-	-	-	49.9
155	F.P.	17.2	176½	162½	Latchways	171½		-	-	-	-
*	F.P.	97.5	99½	70½	†Metalrarsia	97½	+1	-	-	-	-
§115	F.P.	16.6	170½	140	†NSB Retail Sys	170½		L1.15	1.8	0.8	66.2
*	F.P.	2,189	504½	450	Northern Rock	488½	-1	L9.05	2.8	2.3	19.3
70	F.P.	28.1	83½	58	Nott'ham Forest	82		-	-	-	-
§245	F.P.	148.0	278½	245	SHL Group	277½		LW4.5	-	2.0	-
§148	F.P.	8.88	190½	152½	†Solitaire	190½		R8.0	1.2	3.9	14.2
§110	F.P.	57.4	117½	111½	Xser	112½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Oct 20	% chg on day	Oct 17	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ Regional Indices								
Africa (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 21	Day's chge%	Oct 20	Oct 17	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5225.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	4918.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	4942.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

	Oct 21	Day's chge%	Oct 20	Oct 17	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Further information is available on http://www.ftse.com.

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FTSE 100 Index constituent.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 21 / Sch)

BELGIUM/LUXEMBOURG (Oct 21 / Frs.)

CZECH REP (Oct 21 / Korona)

DENMARK (Oct 21 / Kr)

FINLAND (Oct 21 / Mkm)

FRANCE (Oct 21 / Frs.)

GERMANY (Oct 21 / Dm.)

GREECE (Oct 21 / Drachma)

ITALY (Oct 21 / Lira)

NETHERLANDS (Oct 21 / Fls.)

NORWAY (Oct 21 / Kroner)

POLAND (Oct 21 / Zloty)

PORTUGAL (Oct 21 / Escudo)

SPAIN (Oct 21 / Pta.)

SWEDEN (Oct 21 / Kronor)

SWITZERLAND (Oct 21 / Frs.)

TURKEY (Oct 21 / Tk Lira)

PACIFIC

JAPAN (Oct 21 / Yen)

HONG KONG (Oct 21 / H.K.$)

INDONESIA (Oct 21 / Rupiah)

MALAYSIA (Oct 21 / MYR)

NEW ZEALAND (Oct 21 / NZ $)

SINGAPORE (Oct 21 / S$)

AUSTRALIA (Oct 21 / Aus$)

SOUTH KOREA (Oct 21 / Won)

TAIWAN (Oct 21 / TW $)

THAILAND (Oct 21 / Baht)

AFRICA

SOUTH AFRICA (Oct 21 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 21 / Can $)

4 pm close

MONTREAL (Oct 21 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY OCTOBER 20 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY OCTOBER 17 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	225.81	-0.5	205.32	173.14	207.95	205.58	-0.1	3.72	226.86	208.03	172.24	208.80	205.78	243.87	209.89	213.74
Austria (24)	206.18	-0.2	187.48	158.70	189.89	189.83	-0.1	1.73	206.68	188.52	156.92	190.05	188.99	213.59	175.14	180.88
Belgium (27)	244.03	-0.5	221.89	187.11	224.73	219.84	-0.4	3.14	245.25	224.89	186.20	225.51	220.64	261.71	217.18	217.18
Brazil (30)	301.69	1.6	274.31	231.32	277.83	610.78	1.6	1.20	297.05	272.39	225.53	273.15	601.25	322.44	178.94	188.10
Canada (123)	227.14	0.9	206.53	774.16	209.18	227.83	0.8	1.65	225.08	206.38	170.89	206.97	225.93	233.66	777.21	177.21
Denmark (32)	416.78	-0.6	378.94	319.55	383.80	382.45	-0.4	1.34	418.14	384.34	318.22	385.41	384.03	429.78	327.98	333.18
Finland (28)	339.83	0.9	308.61	260.41	312.77	377.83	0.8	1.64	336.59	308.65	255.55	309.51	374.91	349.43	218.01	220.65
France (83)	234.77	-0.5	213.47	180.01	216.21	218.71	-0.4	2.41	235.95	216.38	179.14	216.97	219.53	246.23	200.57	201.74
Germany (58)	225.34	-0.6	204.90	172.78	207.52	207.52	-0.4	1.38	226.63	207.82	172.07	208.40	208.40	243.87	179.31	180.25
Hong Kong, China (66)	446.09	-4.8	405.61	342.04	410.81	443.51	-4.8	3.56	468.63	429.73	355.80	430.92	465.69	580.03	439.95	469.39
Indonesia (27)	122.67	-2.7	111.54	94.06	112.87	278.38	-1.4	2.48	126.09	115.62	95.73	115.94	277.30	254.90	117.56	203.81
Ireland (17)	387.34	0.5	352.20	297.00	356.72	370.37	-0.7	2.61	385.43	353.43	292.63	354.41	372.78	394.88	308.33	308.33
Italy (53)	112.04	0.2	101.87	85.91	703.18	144.74	0.4	1.64	111.77	102.48	84.86	102.78	144.18	115.27	75.44	77.63
Japan (484)	115.99	-2.1	105.46	88.93	106.81	88.93	-1.1	0.90	118.49	108.65	89.96	108.95	89.96	145.08	107.57	145.09
Malaysia (107)	272.43	-5.6	247.71	208.89	250.89	349.18	-3.1	2.04	288.47	264.52	219.02	265.26	360.24	660.85	272.43	582.61
Mexico (27)	1882.14	0.8	1711.37	1443.13	1733.31	15896.78	0.5	1.53	1866.38	1711.43	1417.01	1716.18	15810.83	1888.54	1136.59	1233.35
Netherlands (19)	413.86	0.1	376.31	317.33	381.73	377.01	0.3	2.21	413.34	379.02	313.82	380.07	375.85	440.67	307.18	311.00
New Zealand (14)	94.03	-0.1	85.50	72.10	86.59	77.72	-0.3	3.95	94.13	86.32	71.47	86.56	77.94	96.47	83.03	92.87
Norway (41)	365.90	-0.2	332.70	280.55	336.96	352.74	-0.1	1.75	366.80	336.34	278.48	337.28	352.92	374.84	267.98	263.20
Philippines (22)	95.19	-1.6	86.56	72.99	87.67	181.75	-1.7	1.32	96.71	88.88	73.43	88.93	182.91	214.07	87.66	196.37
Singapore (42)	269.96	-3.6	245.47	206.99	248.61	194.86	-3.0	1.62	280.17	256.91	212.71	257.62	200.88	448.01	269.98	377.53
South Africa (43)	336.47	0.2	305.94	257.99	309.86	345.17	0.2	2.47	335.81	307.93	254.96	308.78	344.57	370.12	301.48	348.78
Spain (33)	254.43	0.2	231.35	195.09	234.31	287.95	0.2	2.34	254.04	232.94	192.87	233.59	267.28	277.33	185.44	185.44
Sweden (49)	505.38	-0.5	459.53	387.50	465.42	569.03	-0.7	1.82	507.05	484.95	384.97	466.24	572.84	538.84	390.36	396.58
Switzerland (33)	315.78	0.6	287.14	242.13	290.82	288.11	0.5	1.16	314.03	287.96	238.42	288.78	286.78	329.59	231.69	241.55
Thailand (39)	35.65	-8.6	82.41	27.33	32.83	52.23	-6.9	5.38	38.99	35.75	29.60	35.85	55.78	129.84	35.65	118.04
United Kingdom (213)	334.40	-0.2	304.06	256.40	307.96	304.09	-1.1	3.26	335.18	307.36	254.48	308.21	307.38	337.89	256.17	259.37
USA (634)	389.17	1.1	353.86	298.39	358.39	389.17	1.1	1.59	384.77	352.83	292.13	353.61	384.77	399.82	283.35	289.37
Americas (814)	356.25	1.1	323.92	273.15	328.08	300.07	1.1	1.59	352.25	323.01	267.44	323.81	296.73	365.75	259.48	264.65
Europe (711)	286.62	-0.2	260.62	219.77	263.96	270.00	-0.4	2.36	287.07	263.24	217.95	263.97	271.19	298.25	222.83	223.82
Nordic (150)	444.84	-0.2	404.48	341.08	409.67	439.13	-0.3	1.71	445.56	408.57	338.28	409.70	440.82	464.83	333.70	337.46
Pacific Basin (877)	129.68	-2.4	117.92	99.43	119.43	100.63	-1.5	1.46	132.85	121.82	100.86	122.16	102.18	160.96	127.18	160.62
Euro-Pacific (1588)	195.17	-1.0	177.47	149.65	179.74	164.11	-0.9	2.01	197.21	180.84	149.73	181.34	165.54	209.12	173.55	186.83
North America (757)	379.18	1.1	344.78	290.72	349.18	378.45	1.1	1.60	374.93	343.80	284.65	344.75	374.23	389.57	277.20	282.57
Europe Ex. UK (498)	255.00	-0.1	231.86	195.52	234.83	245.33	-0.1	1.84	255.28	234.08	193.82	234.73	245.49	267.07	198.96	199.95
Pacific Ex. Japan (393)	250.73	-3.3	227.98	192.25	230.91	235.00	-2.8	3.31	259.22	237.70	196.81	238.36	241.74	320.65	250.73	299.03
World Ex. US (1811)	200.28	-0.9	182.11	153.57	184.45	171.81	-0.7	1.98	202.03	185.25	153.39	185.78	173.06	212.89	178.94	188.69
World Ex. UK (2232)	253.80	0.1	230.86	194.69	233.82	227.49	0.3	1.62	253.52	232.47	192.48	233.12	226.74	262.89	211.18	215.41
World Ex. Japan (1961)	333.86	0.5	308.59	256.00	307.48	326.00	0.4	1.94	332.30	304.71	252.29	305.58	324.70	344.35	257.42	260.22
The World Index (2445)	260.75	0.1	237.09	199.93	240.13	234.42	0.2	1.79	260.47	238.84	197.75	239.50	233.99	268.47	216.15	220.11

PLEASE NOTE: Amendments to indices 20/10/97 applied to South Africa, related regional indices and The World Index. Latest prices were unavailable for this edition.

Emerging markets: IFC Investable Indices

Dollar terms

Oct 20

Markets

Latin America, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, East Asia, China, Korea, Philippines, Taiwan, China, South Asia, India, Indonesia, Malaysia, Pakistan, Sri Lanka, Thailand, Europe/Mideast/Africa, Czech Rep, Egypt, Greece, Hungary, Israel, Jordan, Morocco, Poland, Portugal, Russia, S Africa, Slovakia, Turkey, Zimbabwe, Regions, Composite, Latin America, Asia, EMEA

Base date: Dec 1988=100 except those noted ... Latest indices were unavailable for this edition.

Prices supplied by Extel, part of FT Information.

FT Free Annual Reports Service

NEW YORK STOCK EXCHANGE PRICES

4 pm close October 21

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

- A - · - B - · - C - · - D - · - E - · - F - · - G - · - H - · - I - · - J - · - K - · - L - · - M - · - N - · - O - · - P - Q - · - R - · - S - · - T - · - U - · - V - · - W - · - X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7921.44	7847.03	7938.88	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.04	103.94	104.11	104.70 (31/7)	101.09 (14/4)	104.70 (31/7/97)	54.99 (1/10/81)
Transport	3282.68	3254.43	3308.27	3369.27 (15/10)	2222.07 (2/1)	3369.27 (15/10/97)	13.23 (8/7/32)
Utilities	245.36	242.29	243.90	246.82 (7/10)	209.47 (25/4)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's High 7966.63 (7953.61) Low 7774.83 (7731.12) (Theoretical♦)
Day's High 7924.59 (7934.21) Low 7818.60 (7795.65) (Actual♦)

Standard and Poors	Oct 20	Oct 17	Oct 16	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	955.61	944.16	955.25	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials‡	1114.53	1100.09	1112.87	1146.82 (7/10)	885.42 (11/4)	1146.82 (7/10/97)	3.52 (30/6/32)
Financial‡	114.02	113.15	114.75	118.04 (7/10)	80.75 (2/1)	118.04 (7/10/97)	7.13 (4/9/74)
Others							
NYSE Comp.	502.26	496.57	502.30	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	706.58	700.88	708.38	721.80 (7/10)	541.20 (28/4)	721.80 (7/10/97)	524.20 (16/7/96)
NASDAQ Comp	1685.45	1666.85	1689.66	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (31/10/74)
Russell 2000	453.85	449.29	457.16	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/98)

■ RATIOS

	Oct 17	Oct 10	Oct 3	Year ago
Dow Jones Ind. Div. Yield	1.70	1.66	1.66	2.12
	Oct 15	Oct 8	Oct 1	Year ago
S & P Ind. Div. yield	1.47	1.46	1.48	1.92
S & P Ind. P/E ratio	25.95	26.18	25.72	23.13

US DATA

■ MARKET ACTIVITY

● Volume (million)

	Oct 20	Oct 17	Oct 16
NYSE	483.880	624.980	595.978
Amex	21.989	34.825	30.581
NASDAQ	694.743	934.348	846.254

NYSE	Oct 20	Oct 17	Oct 16
Issues Traded	3,379	3,396	3,399
Rises	1,676	608	1,038
Falls	1,005	2,324	1,807
Unchanged	498	554	554
New Highs	65	56	156
New Lows	32	53	31

■ NYSE TRADING ACTIVITY — Volume : 483,880,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AT & T	10,727,300	47½	+2¼
Compaq	9,449,500	71	+1½
Sears Roe	5,724,200	40½	−1¼
Boeing	5,461,400	53¼	+1⅞
IBM	4,597,900	97¾	+2⅛
ITT	3,853,900	75¼	+5⅛
Ph Morris	3,472,800	40⅜	
Starwood	3,408,300	57⅜	+1⅛
Merck	3,378,400	94⅜	−⅛
Gen Elect	3,318,500	70⅜	+1⅛

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Sta Fe Pac	50⅛	+9⅛	+22.0
Lexmark	34⅞	+4⅞	+16.5
Fairfield	40⅞	+4⅛	+11.1
Times Mirr	37	+4	+12.1
Downs			
Taiwan Sm	22	−3⅛	−12.4
Navistar	23	−1¾	−7.1
China E Air	24⅞	−1⅞	−6.7
Unitrode	29⅞	−1⅞	−6.2

■ NASDAQ TRADING ACTIVITY — Volume :694,743,000

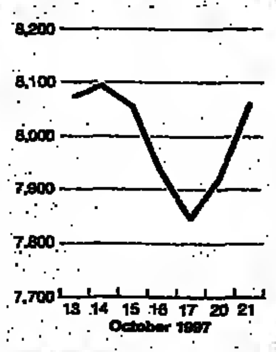
■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Microsoft	19,005,000	132½	+¼
Apld Metal	18,697,000	40⅛	−1½
Intel	18,402,200	84⅛	+1⅛
Sun Micro	13,891,400	39⅛	+⅞
Noise Cancl	9,549,500	1⅛	+⅛
Netscape	8,702,900	39¾	+4⅛
MCI Comms	7,579,800	38⅛	+¼
Cisco Sys	6,741,000	81⅛	+1⅛
Dell Comp	6,270,185	97	+2¾
Three Com	6,173,100	50⅛	+⅛

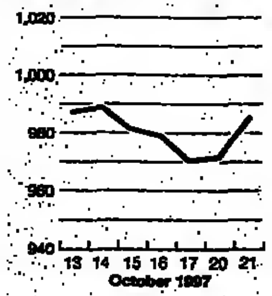
■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Ione Tech	16½	+3⅛	+27.1
Golf Intl	65	+8½	+15.0
First Comm	66¾	+8¾	+14.2
Iridium	47	+3¾	+8.7
Downs			
Macronix	16½	−3⅛	−17.8
Splendor A	23¾	−4¼	−15.6
Showbiz Pz	21½	−2⅞	−12.0
Lycos	29⅛	−2⅞	−8.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	17210.09	17294.51	17478.42	20681.07	17204.70	38915.9	85.25

■ TOKYO TRADING ACTIVITY — Volume : 332,000,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Kumagai Gm	9,338,000	185	+6
Nippon Stl	7,316,000	261	+8
Kawsaki Stl	6,737,000	215	+18
Askd Corp	6,500,000	50	+2
Bk Tk-Mshi	5,238,000	1650	+20
Hitachi	4,900,000	1040	−20
Nissan Mtr	4,637,000	636	+1
Kobe Steel	3,832,000	133	+1
NEC Corp	3,468,000	1440	−40
Sakura Bk	3,197,000	545	

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Miyakoshi	165	+40	+32
Nihon Kent	548	+80	+17.1
Nip Convyr	202	+27	+15.4
TKC Corp	2650	+310	+13.3
Downs			
Aderans	3150	−310	−9
Frontier	6920	−620	−8.2
Ichiken	216	−19	−8.1
Tokai Kako	113	−9	−7.4

FRANCE

	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2969.89	2946.71	2958.02	3094.01	2256.97	3094.01	984.81

■ PARIS TRADING ACTIVITY — Volume : 500,052,390

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AGF	2,515,852	324.7	+8.3
Rh-Polnc A	1,114,505	283.4	−2.1
Axa-UAP	891,891	409.5	+4.1
Worms & C	768,070	507	+4
B.N.P.	757,018	318.8	+11.5
Michelin	619,293	481	+8.1
Elf Aqtne	912,228	781	+35
Total B	598,332	663	+23
LVMH	553,368	1115	−37
Paribas	548,712	466	+2

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Manum et Cie	1250	+165	+8.2
Finatis	276	+23	+8.1
GTI	226	+14	+6.5
Cm Lyon Alm	432	+26	+6.4
Downs			
Un Crdt Et	13.5	−2.9	−17.7
Fernd Rnd	121	−17.8	−12.9
Girodet	26.95	−3.05	−10.2
SCAC Dims	1077	−82	−7.1

GERMANY

	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4139.50	4040.75	4061.50	4438.93	2848.77	4438.93	931.10

■ FRANKFURT TRADING ACTIVITY — Volume : 9,895,875

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Bayer	1,102,999	67	+0.2
Dt Telekom	898,898	33.3	
BASF	727,983	63.5	+2.35
Lftnsa Rg	673,336	33.35	+1.05
Commzbnk	537,270	64.95	+1.75
Dtsche Bk	517,466	124.55	+2.55
Dmlr-Benz	475,428	135	+2.8
Siemens	452,705	120.35	+2.45
Bayer Vrns	442,753	108.5	+4.4
Veba	389,825	98.5	+2.75

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Rheinmtl	37.25	+2.55	+7.3
Gerresmr	26.55	+1.48	+5.9
Beiersdrf	81	+4	+5.2
AMB A&M Rg	1910	+90	+4.9
Downs			
Babck-BSH	113.5	−6.5	−5.4
Marsla Kls	31.5	−1.5	−4.5
Plettac	351.5	−16.5	−4.5
Fielmann	39.5	−1.45	−3.5

UK

	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5225.9	5211.0	5271.1	5330.80	4056.60	5330.8	986.9

■ LONDON TRADING ACTIVITY — Volume : 729,100,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Fortune Oil	121074705	1¾	−⅛
BT	21,178,635	480	+8
Sears	14,281,079	92	+1
ASDA	12,596,049	154½	+2½
Burton	7,950,831	133½	
Cable&Wire	7,894,825	517	−18
Salvsn Ch	7,615,992	185	
Scot Schet	7,397,890	608	+8
Safeway	7,365,780	402	+6
Shell T&T	7,191,030	456½	+½

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Westmount	137½	+18	+15.1
Celtic Res	25½	+3	+13.3
Topps Tiles	287	+28	+10.8
Biocmptble	585	+40	+7.3
Downs			
Graham Hs	14	−8	−36.4
RJB Mining	183½	−56½	−23.5
Betacom	40	−7	−14.9
Meteor Tec	40	−5½	−12.1

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	982.80	987.00	+4.75	989.40	982.00	58,818	189,740
Mar.	977.00	977.70	+4.90	979.75	975.50	290	4,340
■ Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	17400.0	17210.0	−130.0	17510.0	17200.0	18,989	164,834
Mar	17300.0	17420.0	+60.0	17420.0	17300.0	172	9,611

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2995.0	2997.0	+44.0	3000.0	2955.0	20,279	27,889
Nov	2983.0	2998.0	+37.0	2998.0	2969.0	1,493	15,572
■ DAX							
Dec	4123.0	4201.0	+109.0	4204.0	4112.0	18,191	60,847
Mar	4163.0	4237.0	+107.0	4237.0	4151.0	193	3,098

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2508.25	2535.00	+46.00	2538.00	2508.25	11,988	18,742
Nov	2520.00	2548.00	+48.00	2549.00	2520.00	8,330	4,891
■ SOFFEX							
Nov	5802.0	5875.0	+80.0	5880.0	5802.0	3,738	20,725

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	✠ Yield	✠ P/E
Argentina	General	25551.25	25417.10	24928.6	25551.25 21/10	18237.37 2/1	2.84	21.1
Australia	All Ordinaries	2650.7	2639.4	2645.6	2779.20 25/9	2352.20 1/4	3.44	18.8
	All Mining	749.5	747.5	750.7	997.10 24/2	747.50 20/10		
Wall Street rise helped stocks higher after 8 days of falls, but trade subdued ahead of inflation and wages data.								
Austria	Credit Aktien	467.99	462.90	463.44	474.42 2/10	374.40 9/1	1.85	16.7
	Traded Index	1425.27	1408.90	1406.88	1480.49 31/7	1130.22 9/1		
Sentiment lifted by gains in Germany. Paper leader Lenzing rose 3.1 per cent.								
Belgium	BEL20	2401.02	2381.26	2389.51	2621.99 28/7	1871.05 2/1	2.39	15.9
Investors remained nervous. Trading was volatile and volume low.								
Brazil	Bovespa	12827.0	12704.0	12488.0	13617.00 8/7	6955.50 2/1	0.41	on
Canada	TSE 100♦	423.34	421.53	418.28	430.48 7/10	342.12 11/4	1.64	21.7
	Metals Mnls♦	4628.47	4567.69	4540.73	5981.75 10/3	4540.73 17/10		
	Composite♦	7107.70	7075.40	7036.50	7209.98 7/10	5879.30 14/4		
	Portfolio§§	3490.95	3466.26	3445.69	3547.89 7/10	2846.02 11/4		
♣Shares broadly higher at midsession helped by further strong gains at Seagram.								
Chile	IGPA Gen♥	5211.99	5201.77	5215.58	5866.71 4/7	4912.42 2/1	3.42	16.8
China	Shanghai B	(u)	70.93	73.10	98.21 7/5	60.78 9/1	1.19	71.3
	Shenzhen B	128.84	127.51	127.10	184.20 6/5	120.44 8/7		
Focus on new listings including Dahua Chemical, which topped turnover, closing slightly lower on 12.2m shares traded.								
Colombia	IBB	(u)	1517.07	1521.32	1639.72 16/10	844.41 2/1	on	na
Czech Republic	PX 50	545.8	546.4	548.7†	609.00 25/2	476.70 21/5	na	na
Shares drifted lower in lacklustre volume as budget uncertainty kept sentiment on hold.								
Denmark	CopenhagenSE	658.35	650.51	650.60	682.81 6/10	470.14 2/1	1.32	20.6
Banks led the market higher with Jyske Bank rising to a record level.								
Egypt	Cairo SE Gen	367.47	368.11	(c)	− −	− −	na	na
Shares moved lower in weak turnover with volume some 40 per cent down on Monday's level.								
Finland	HEX General	3890.69	3797.83	3768.63	3890.69 21/10	2403.28 2/1	2.04	16.8
Enthusiasm for global tech stocks lifted Nokia and sent market sharply higher.								
France	SBF 250	1931.64	1911.80	1919.73	2003.43 31/7	1533.19 2/1	2.5	17.5
	CAC 40	2969.89	2946.71	2958.02	3094.01 3/10	2256.97 2/1		
Selected buying of sectors, notably oils and motors, sent shares higher.								
Germany	FAZ Aktien	1378.50	1345.76	1358.33	1481.44 31/7	986.21 2/1	1.43	20
	Commerzbank	4015.50	3925.30	3960.40	4336.70 31/7	2875.90 2/1		
	DAX‡	4139.50	4040.75	4061.50	4438.93 31/7	2848.77 2/1		
Weaker-than-expected money supply data sent bonds and equities steeply higher.								
Greece	Athens SE	1732.53	1745.93	1768.23	1794.14 8/10	864.54 2/1	2.64	18.3
Profit-taking sent shares lower ahead of announcement of the 1998 budget.								
Hong Kong	Hang Seng	12403.10	12970.88	13601.01	16673.27 7/8	12095.17 3/4	2.99	13.1
	HSCC Red Chip	2329.79	2572.25	2751.08	4110.55 27/8	1849.45 9/1		
Concerns over local currency and interest rates sent Hang Seng tumbling to lowest level since mid-April.								
Hungary	Bux	7988.76	7994.07	7946.35	8483.80 6/8	4291.30 6/1	na	na
Shares drifted lower following a stakeout for the heavyweight chemicals sector.								
India	BSE Sens.	4116.99	4154.84	4106.26	4548.02 5/8	3223.24 2/1		
	Crisil 500	751.20	758.19	747.55	843.28 5/8	622.21 2/1	na	na
Shares traded lower after end of account book-squaring led to technical weakness.								
Indonesia	Jakarta Comp.	514.98	514.17	520.68	740.83 8/7	479.81 2/9	2.27	14.5
Shares mixed as investors digested central bank moves to improve liquidity.								
Ireland	ISEQ Overall	3870.83	3861.78	3885.40	3924.06 14/10	2725.87 2/1	2.25	16.9
Shares tracked the London market in thin volumes.								
Israel	Mishtanim 100	310.16	310.36	(c)	311.76 5/8	214.15 2/1	na	na
Shares closed mixed in heavy turnover. Dealers described the broad bias as negative.								
Italy	BCI Comit 30	239.11	235.72	234.81	242.86 26/9	155.74 2/1	1.58	25
	Banca Com Ital	998.19	986.10	990.94	1002.86 14/10	642.55 2/1		
	Mibtel General	16023.0	15801.0	15727.0	16059.00 26/9	10488.00 2/1		
Market heavyweight Fiat rose 3.8 per cent as broad market tracked the upturn across Europe.								
Japan	Nikkei 225	17210.09	17294.51	17478.42	20681.07 16/6	17204.70 13/10	0.85	46.9
	Nikkei 300	265.13	266.15	269.36	303.71 26/7	251.04 27/1		
	Topix	1344.32	1347.75	1360.76	1560.28 26/6	1320.82 10/4		
	2nd Section	1424.78	1419.35	1420.82	1848.25 30/6	1409.51 14/10		
Investors discouraged that economic stimulus package did not contain more radical measures.								
Jordan	Amman SE	171.0	170.54	(c)	− −	− −	na	na
Malaysia	KLSE Comp.	760.30	767.97	794.80	1271.57 25/2	731.12 4/9	2.32	13
Losses extended to 5.2 per cent over 3 days as investors continued to express disappointment over the budget.								
Mexico	IPC	5361.76	5312.57	5275.59	5386.35 16/10	3359.46 2/1	1.16	18.1
Morocco	CASA	664.89	663.77	663.14	689.75 23/4	451.90 3/1	na	na
Netherlands	CBS TtlRtnGen	1103.0	1084.7	1083.9	1184.60 7/8	730.80 2/1	2.05	23.4
	CBS All Shr	632.9	622.3	621.9	684.40 7/8	428.08 2/1		
Philips pushed higher ahead of tomorrow's third-quarter results statement and broad market followed suit.								
New Zealand	Cap. 40	2599.84	2572.67	2583.79	2612.90 14/10	2287.46 1/4	4.08	20
Market closed at session high, buoyed by firm bonds and the return of overseas investors.								
Nigeria	SE All-Share	6746.05	6739.23	6836.39	− −	− −	on	na
Norway	Oslo SE Ind	2285.96	2252.93	2240.71	2285.96 21/10	1639.03 2/1	1.71	15.9
Shares reached an all-time high on the back of strong buying in offshore exploration and shipping stocks.								
Pakistan	Karachi SE	2056.52	2009.00	1978.66	2058.92 21/10	1341.31 7/1	na	na
Bullish sentiment continued as talk turned to possible credit upgrade after IMF approval of $1.56bn loan.								
Peru	Lima Gen	1956.93	1978.29	1983.61	2269.46 10/7	1428.78 2/1	na	na
Philippines	Manila Comp	1993.89	2015.78	2050.88	3447.80 3/2	1920.63 7/10	1.28	12.4
Shares fell sharply on fears third-quarter corporate earnings reports will be disappointing.								
Poland	WIG	17788.5	17873.2	17867.8	18339.40 18/2	14421.80 6/1	1.38	12.3
Shares moved lower as investors waited for indication of the new cabinet line-up.								
Portugal	BVL 30	3633.10	3612.75	3627.91	3698.61 3/10	2185.57 2/1	1.65	25.8
	PSI 20	8468.86	8423.56	8459.82	8803.62 3/10	5152.34 2/1		
Market gained in spite of 5 per cent slide at Telecel as nine-months results sparked profit-taking.								
Russia	RTS	538.01	536.61	532.90	571.66 6/10	213.38 6/1	na	na
Political uncertainty lifted and shares moved strongly ahead.								
Singapore	SES All-S'pore	440.99	446.75	456.20	573.83 17/2	437.04 2/9	2.01	15.1
	Straits Times	1771.22	1794.92	1827.39	2271.88 20/1	1771.22 21/10		
Weak Singapore dollar and plunge in Hong Kong encouraged investors to sell stocks.								
Slovakia	SAX	180.28	183.76	181.03	208.64 21/3	164.81 22/7	na	na
South Africa	JSE Gold	1009.6♥	1018.7	1021.5	1588.10 27/2	873.20 23/9	2.57	14.9
	JSE Ind.	8948.9♥	8851.4	8789.4	9314.20 7/8	7859.50 2/1		
Shares continued in rally following Monday's central cut for interest rates.								
South Korea	KoreaCmpEx**	566.85	565.64	585.49	792.29 17/6	565.64 20/10	2.45	13.3
Shares pulled back from negative territory aided by government's support for banks and easing political uncertainty.								
Spain	Madrid SE	602.00	587.01	586.70	640.20 1/10	434.64 2/1	2.45	18.8
Market moved steeply higher with privatisation stock Endesa a volatile feature.								
Sri Lanka	CSE All Share	789.70	769.20	771.60	869.70 31/7	606.70 2/1	na	na
Turnover jumped as foreign interest resumed, although local investors remained cautious.								
Sweden	AffarsvarldsGen	3177.1	3138.5	3155.6	3345.80 7/8	2379.50 2/1	1.8	22.2
Index heavyweight Ericsson surged strongly to lift the broad market.								
Switzerland	SMI Index	5862.9	5777.2	5751.8	6012.60 8/7	3922.90 7/1	1.11	22.6
	SPI General	3738.01	3688.73	3672.95	3770.18 3/10	2506.22 6/1		
Shares made solid advance in spite of sell-off at ABB following a disappointing results statement.								
Taiwan	WeightedPr.**	7734.05	7316.78	7832.15	10116.84 26/8	6844.75 6/1	1.11	28
Shares rebounded after government stimulus measures and buying from government-related funds.								
Thailand	Bangkok SET	507.94	509.51	525.64	858.97 22/1	484.77 19/6	5.25	10
Investors stayed on the sideline ahead of widely expected cabinet reshuffle.								
Turkey	IMKB Nat 100	3442.00	3416.00	3451.00	3451.90 17/10	995.08 2/1	1.69	19.6
Insurance shares rose strongly, but the broad market drifted lower in dull trading volumes.								
Venezuela	IBC	10650.30	10619.62	10613.66	10817.13 17/10	6061.99 12/3	na	na
Zimbabwe	ZSE Industrial	(u)	10169.69	10147.98	12081.95 5/8	8830.80 2/1	na	na
WORLD	FT/S&P World(S)	(u)	260.74	260.47	268.09 7/10	216.61 14/4	on	na
	MS Capital IntS	960.6*	955.3	954.8	981.80 31/7	794.50 14/4	na	na
CROSS-BORDER	Eurotrack 100	2679.89	2648.92	2666.72	2784.80 7/8	1883.80 2/1	na	na
	FTSE E100	2297.04	2261.57	2285.38	2365.95 7/8	1682.39 2/1	na	na
	HSBC JC Drgn	(u)	317.24	334.60	434.83 6/8	317.24 20/10	na	na
	ING Bmgs Emrg	(u)	170.63	174.30	198.81 9/7	158.74 3/1	na	na

** Sat Oct 18: Taiwan Weighted Price 7818.46; Korea Comp Ex 584.71. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Oct 21 - 4172.47 +103.22.† Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day (The figures in brackets are previous day's). ♥ Subject to official recalculation. ✠ Yields and P/E ratios are based on Datastream Total Market Indices. ♣ Midsession.

NASDAQ NATIONAL MARKET

4 pm close October 21

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close October 21

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.875		2000	8.25	2.875	Lernout & Hauspie	US$49.75	+1.75	7718	58.625	25
Artwork Systems	US$9.875		1700	11.125	7.875	Mekoda	US$7.9375	-0.0625	10000	9.125	7.9375
Chemunex	FFr12.5		0	18	10	Mercer Int'l	US$12.625	+0.75	0	12.875	8.125
Debonair Holdings	GBP5.3	-0.1	10900	7.15	4.5	NTL	US$26.625		0	27.5	20.5
Dr Solomon's ADS	US$20.875	-0.875	3000	32.375	16.875	PixTech	US$3.75		0	6.125	3.375
EDAP TMS	US$7.8125	+0.0625	0	9.125	6.5	Schoeller-Bleckmann	Sch1646	-32	5760	1692	900
Espace Prod. Int.	FFr108.63	-0.75	7400	117	108.63	Topcall Int'l	Sch4678	-25	2450	5000	3065
Esprit Telecom ADS	US$5.75		400	12.25	5.375	Turbodyne Technol.	US$5.33	-0.05	10000	6.25	3.73
Innogenetics	US$14.5	-0.375	81645	15.75	9.875						

Prices for 21/10/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990)

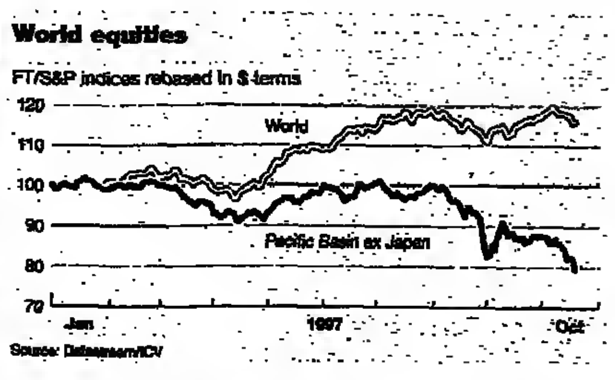
No unhappy returns to 1987 and all that

WORLD OVERVIEW

Crash? What crash? The western stock markets sighed with relief after it became clear that the weekend's tenth anniversary of the 1987 crisis had passed without any sign of a repetition, *writes Philip Coggan*.

European markets were heartened by Monday's performance on Wall Street, which shook off Black Monday superstitions sufficiently to record a 74 point gain, and which began trading yesterday in buoyant mood, as technology stocks rebounded.

Germany almost looked as if it was enjoying its version of the "Goldilocks economy" as a jump in the IFO index of business confidence – signalling the prospect of economic growth – combined with a fall in the rate of money supply expansion – indicating the lack of inflationary pressures.



Source: Datastream/ICV

Investors seemed to take the view that there would be no need for a further increase in German interest rates this year and the DAX index gained 103.22, or 2.5 per cent, to 4,172.47 in post-bourse trading. The DAX has rebounded 9.2 per cent since its mid-September low.

Of course, a further factor giving the German market a lift was the US dollar, which gained more than a pfennig against the D-Mark on the previous London close. According to Credit Suisse First Boston, the DAX 30 and the dollar/D-Mark have had a very close (90 per cent) correlation over the last two years, thanks to factors such as the importance of exported stocks and US investment in Germany.

The performance of Europe and the US was once again in contrast with that of Asia, where Hong Kong in particular continued to take a battering. The Hang Seng index is now 18.4 per cent below its pre-handover level, and 25.5 per cent off its peak.

In a note published yesterday, Chris Carter, managing director, global equity strategy, at UBS argued that the crash in Asia would not turn into a global sell-off.

"The collapse in Asian currencies and Asian growth in sending out a deflationary impulse to the rest of the world," he said. "Given that the rest of the world is worrying about inflation and interest rate rises, anything which at the margin acts to dampen inflation and reduce interest rate expectations can hardly be crash-inducing."

Mr Carter said that Asian markets were suffering from "substantial US redemptions of dedicated Asian mutual funds combined with the realisation by other global investors (eg UK pension funds) that having greater exposure to Asia than to the US might not be an optimal long-term position."

At some point, although not yet, he thought that the selling pressures would create "the mother of all buying opportunities in the region."

London market, Page 32

US equities climb back above 8,000

AMERICAS

US shares rallied as positive earnings reports by financial and technology companies helped send the midday Dow Jones Industrial Average back above the 8,000 level, *writes John Labate in New York*.

"The market got a little oversold and it seems investors are picking up values," said Warren Epstein, director of trading at Richard Rosenblatt & Co. in New York.

At all events, last week's hesitancy looked to have been replaced by a new-found enthusiasm yesterday. By 1pm the Dow was 94.06 or 1.2 per cent higher at 8,015.50. The broader Standard & Poor's index gained 11.27 at 966.88, while the Nasdaq composite index, which is weighted with technology shares, rose 21.05 or 1.3 per cent at 1,706.50.

Investors continued to bid up technology stocks following Monday's upbeat results from IBM and Microsoft. IBM surged more than 5 per cent or $5% at $107¾. Shares in Microsoft gained $3¾ at $136¼ in spite of Monday's request by the US Department of Justice for heavy fines on the software leader.

Semiconductor company shares moved higher as well, with the Philadelphia index of semiconductor shares surging more than 2 per cent to 355.45. Intel rose $1⅞ to $85.

Other high-tech risers included internet bookseller Amazon.com, which jumped more than 7 per cent to $49¾ after the company settled law suits with Barnes & Noble. Shares in Barnes & Noble moved up $1 to $29⅛.

Banking stocks were sharply higher as three of the largest – Citicorp, Wells Fargo, and Chase Manhattan – reported better than anticipated earnings. Citicorp rose $5 to $143¾ while Wells Fargo gained $15⅛ to $307⅞.

The bank sector gains were achieved in spite of a mixed bond market. Early morning comments by Alice Rivlin, vice chair of the Federal Reserve, left many *Treasury investors* with the impression that interest rates may be headed higher after the next month's open market committee meeting.

TORONTO struggled to track Wall Street through the morning session although consumer stocks reported gains, with Seagram in the vanguard. The 300 composite index rose 32.27 to 7,107.70 in thin volume.

Analysts said that investors were staying on the sidelines over fears about possible interest rate increases in Canada and the US.

Seagram was the main focus of attention, with the shares jumping C$2.10 to C$50.90 on positive market reaction to a complex deal, announced on Monday, which merged its Universal television operations into HSN of the US. PaineWebber upgraded the company's shares from neutral to attractive.

Northern Telecom dropped C$6.80 to C$144.20 on disappointment over its third quarter earnings figures. Royal Bank of Canada rose C$1.25 to C$72.60.

Mexico City posts gains

MEXICO CITY posted solid gains in morning trading as buyers *returned* to the market, encouraged by Wall Street's strong opening and the positive outlook for corporate earnings. The IPC index was up 48.84 to 5361.41.

Analysts said the market was benefiting from a stream of good news. The latest came on Monday when J.P. Morgan raised its 1997 economic growth forecast for Mexico.

Teléfonos de México, which was expected to report third-quarter earnings late in the session, rose 30 centavos to 20.70 pesos, helped by an *upgrade from* ING Barings.

SAO PAULO rose sharply in early trade as the market took its cue from New York. The Bovespa index was up 252 at 12,596 in sluggish volumes, with traders reporting spillover buying after Monday's options expiry.

Market bellwether Telebras extended Monday's gains, rising R$3.90 to R$160.90 on excitement surrounding its forthcoming privatisation offer.

Frankfurt bounces on M3 data

EUROPE

Sentiment swung upwards in **FRANKFURT** after the *Bundesbank released* lower-than-expected M3 money supply figures for September, easing fears that the central bank would put up interest rates at its council meeting tomorrow.

The Ibis-indicated DAX index raced ahead by 103.22, or 2.5 per cent, to 4,172.47 after the news helped the dollar rise sharply against the mark. It was also aided by a strong opening on Wall Street.

Analysts said shares were likely to consolidate at higher levels, even though the Bundesbank is still expected to raise interest *rates* by between 20 and 30 basis points in the new year.

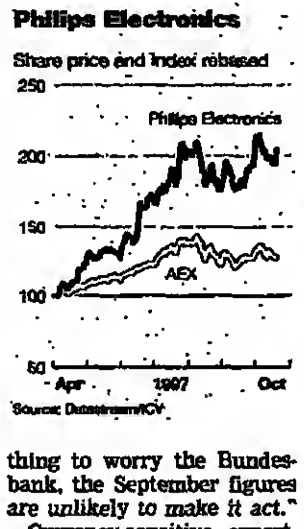
"A lot of people expected the Bundesbank to put up interest rates this week," said Rod Hinkel, German analyst at James Capel. "Now, at least we know that if M3 was going to be the thing to worry the Bundesbank, the September figures are *unlikely to make it act.*"

Currency-sensitive exporters benefited most as shares bounced, with Hoechst rising DM1.47 to DM63.52 and fellow chemicals group Degussa up DM5.20 at DM91.30. BASF also gained, putting on DM1.47 at DM63.52.

"What is driving the market is the export-led stocks," said Robert Hussey at Credit Suisse First Boston.

Vereinsbank and *Hypo* Bank were both firmer ahead of today's joint news conference to *announce* earnings. Vereinsbank was up DM4.15 at DM107.15 while Hypo Bank rose DM3.03 to DM81.23.

AMSTERDAM moved higher on the back of improving bonds, a strong dollar and a surge at Philips ahead of tomorrow's third-quarter results. The AEX index ended up 15.15 at 922.52.



Source: Datastream/ICV

FTSE Actuaries Share Indices — European series

October 20

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total rtn (Ecu)
FTSE Eurotop 300	971.39	+0.07	+0.67	2.26	0.06	975.82
FTSE Eurotop 100	2265.38	+0.68	–15.46	–	–	–
FTSE Eurotop 300 Regions						
300 UK	986.49	–0.03	–0.30	3.12	0.15	995.24
300 Ex-UK	963.38	+0.13	+1.23	1.78	0.00	965.39
300 Eurobloc	952.95	+0.04	+0.36	2.00	0.00	955.94
300 Ex-Eurobloc	985.40	+0.09	+0.89	2.48	0.09	990.90
FTSE Eurotop 300 Economic Groups						
Resources	990.05	–0.07	–0.69	2.73	0.00	1005.23
General Industries	980.13	+0.08	+0.58	1.88	0.00	981.45
Consumer Goods	935.36	+0.28	+2.62	1.81	0.13	938.47
Services	975.13	+0.08	+0.74	2.23	0.00	979.31
Utilities	966.08	+0.13	+1.23	3.17	0.00	971.90
Financials	979.97	–0.04	–0.38	2.28	0.11	984.45

Base value 1000. More information on http://www.ftse.com. "FTSE" and "Footsie" are registered trade marks of the London Stock Exchange and The Financial Times. "Eurotop" is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved. Share Weighting change effective 23/10/97: Lufthansa (100% to 40.85%) (Germany) (Services).

Philips was the main feature of the session, advancing Fl 6.20 to Fl 168.70 for a two-day gain of more than 5 per cent as buyers swept in ahead of quarterly earnings which are widely expected to prove very strong.

PolyGram, the electronic giant's entertainments offshoot which puts out a third-quarter report today, rose Fl 1.90 to Fl 115.50.

Unilever added Fl 3.00 to Fl 111 amid favourable broker comment on its near $1bn push into the Brazilian ice cream market.

PARIS made amends for Monday's dull trading, sweeping smoothly higher on good volume as buyers honed in on a number of sectors. Motors rebounded, oils tracked the rising dollar and the sprinkling of takeover situations all stayed active. The CAC 40 index ended 43.18 higher at 2,969.89 in 13.8m shares traded.

Total and Elf Aquitaine rose FFr23.00 to FFr663 and FFr35.00 to FFr781 respectively as the dollar made further inroads into the franc.

There was a clear *upswing* in sentiment among motor stocks after the recent shakeout on worries about a shorter working week. Renault bounced FFr7.20 to FFr172, Peugeot FFr23.00 to FFr774 and Valeo FFr13.90 to FFr386.

Persistent talk of a counter-bid kept AGF active. A French press report pinpointed Société Générale, a 6.5 per cent shareholder in AGF, *as the* most likely source of a competing offer to the hostile FFr300 a share put up by Generali of Italy. AGF added FFr6.30 to FFr324.7 and SocGen FFr20 to FFr926.

France Telecom remained active on its second day of trading, gaining FFr3.50 to FFr210 in turnover of FFr3.9bn. Dassault Systemes jumped FFr9.90 or 5.5 per cent to FFr191 after upbeat nine-month results showed a 44 per cent rise for earnings.

Fallers were thin on the ground. An earnings downgrade from Deutsche Morgan Grenfell sent LVMH down FFr37 or 3.2 per cent at FFr1,115.

MADRID climbed by 2.6 per cent, its second sharpest gain of the year, helped by the general European rally and a turnround at Endesa on the first day of trading after its latest privatisation offer. The general index rose 14.99 to 602.00.

Having opened at a discount to the Pta2,685 institutional price, Endesa rallied late in the session to close at Pta2,720, up Pta85.

ZURICH moved steadily higher in line with the trend across Europe in spite of a SFr50.00 slide to SFr2,120 at heavyweight engineer ABB following a disappointing nine-month results statement. The SMI index ended up 65.7 at 5,862.9.

MILAN moved up in spite of a warning from Antonio Fazio, governor of the Bank of Italy, that interest rates would come down only when inflation prospects improved. The Mibtel index closed at its high for the day of 16,023.

HELSINKI was 2.5 per cent higher, helped by the strong recovery in US technology stocks on Monday. Nokia, which makes up around 35 per cent of the HEX index by market value, rose FM18.50 to FM526.50. The index finished up 93.06 at 3,890.69.

Written and edited by Jeffrey Brown, Jonathan Ford and James Montgomery.

SOUTH AFRICA

Johannesburg moved strongly ahead as the market was boosted by the central bank's one percentage point interest rate cut and Wall Street's firm opening. The all-share index finished up 90.1 at 7,384.4.

Financials led the upwards push, surging 236 to 10,498.5, as three major banking shares reached year highs on prospects that the rate cut would help lending and reduce bad debts.

Hong Kong backtracks again

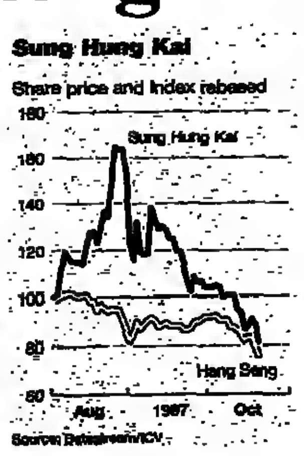
ASIA PACIFIC

Shares in **HONG KONG** fell steeply for the second day running as currency concerns and rising interest rates sparked worries about corporate earnings. The Hang Seng index shed 567.78 to 12,403.10 for a two-day decline of more than 9 per cent.

Red chips and H shares were also deeply troubled. The red chip index, the China Affiliated Corporations index, tumbled 242.46 or 9.4 per cent to 2,329.79. H shares, in the form of the China Enterprises index, lost 55.14 or 5.8 per cent to 888.41.

Interest rate sensitive property stocks tumbled in improved volume. Sung Hung Kai Properties came off HK$6.00 to HK$74.00 to extend its losses since early August to 30 per cent. Cheung Kong lost HK$4.50 to HK$65.75. Market turnover picked up to HK$19.3bn.

TOKYO fell in late trading on disappointment with a government stimulus package, *writes Bethan Hutton*. The Nikkei 225 average closed just above the day's low of 17,209.59 at 17,310.09, down 84.42.



Source: Datastream/ICV

Buying of smaller-cap and lower-priced stocks drove the index higher for most of the day, but selling pressure emerged in the afternoon as details of the ruling Liberal Democratic Party's proposed stimulus package came through. The market had discounted most of the expected measures as too weak to make a difference, but a few remaining hopes of significant action were dashed.

The Topix index of all first-section shares slipped 3.43 to close at 1,344.32, while the capital-weighted Nikkei 300 index ended 1.02 lower at 265.13. But rising shares still outnumbered those falling, by 656 to 429. Volume improved to about 336m shares.

Builder Kumagai Gumi was the day's most heavily traded share. News of a write-off and a projected Y200.5bn loss for this year was seen as a sign of the group tackling its problems head on. The shares gained Y6 to close at Y109.

Matsuzakaya, the department store operator, was out of favour after its offices were raided and a board member arrested on *suspicion* of paying off corporate racketeers. Matsuzakaya lost Y19 to Y501.

Among financials, Nikko Securities lost Y17 to Y484, while other brokers were mixed. Nomura gained Y20 to Y1,610. Yamaichi and Daiwa lost Y1 to Y poor Y740 respectively.

In Osaka, the OSE index gained 36.17 to close at 17,956.65 in volume of 19.4m shares.

TAIPEI more than reversed *Monday's* 4 per cent fall as the composite index rallied sharply, helped by a government stock market stimulus plan and strong gains on Wall Street for US technology stocks.

The composite index rose 417.27 or 5.7 per cent to 7,734, its biggest one-day points gain since May 1990. However, the index remains 24 per cent below its 10,116.84 peak, hit on August 26.

Although financial stocks were the biggest proportionate gainers, with the sub-index up 6.75 per cent, the market was driven higher by the electronics sector, which rallied on the back of Wall Street.

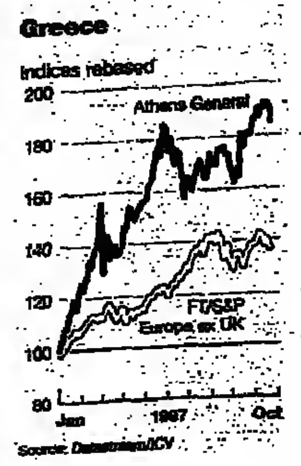
Brokers reported heavy buying from government-related funds at the opening. Total turnover was T$137.9bn, of which around T$50bn was said to have been traded in the first half hour.

MANILA extended Monday's losses as the market continued to suffer from currency weakness, falling 1 per cent to stand 3 per cent below Friday's close. The composite index dropped 21.89 to 1,993.89. Bank stocks improved in spite of reports of slimmer margins and higher levels of defaults. Metrobank achieved a late rally, finishing up 15 pesos at 290 pesos.

EMERGING MARKET FOCUS

Athens on a winning streak

Bolstered by economic recovery and Greece's award of the 2004 Olympic Games, Athens has turned in one of the best emerging market performances of the year.



Source: Datastream/ICV

The Socialist government of Costas Simitis has become the businessman's friend, especially now that it is providing political backing for penetrating neighbouring Balkan markets, seen as important for Greek companies' growth.

After marking time throughout 1996, the bourse has surged by 88 per cent this year.

Interest rates on treasury bills have dropped to single digits, causing small investors to switch out of debt securities and into equities. Last month the inflation rate was down to 4.9 per cent, its lowest for almost 30 years. Fuelled by European grants and a recovery in house construction, the economy is forecast to grow by 3.5 per cent this year.

News of Greece's selection to host the Olympics gave the market a fresh boost. Shares in construction companies and cement producers jumped *first*; then telecoms equipment and information technology companies, and banks expected to finance investments.

Ebullient local bankers like to claim the International Olympic Committee's choice of Athens amounts to a vote of confidence. "We lost the 1996 Olympics to Atlanta because nobody believed Greece would be able to build the necessary facilities," says one. "Now it looks as if they'll all be in place a couple of years beforehand."

Construction has started on a much-delayed group of EU-financed infrastructure projects with a value of more than $6bn. They include an international airport for Athens, a toll highway across the city and a toll bridge across the Corinth Gulf, which will improve transport between Greek and Italian ports.

As a result of rights issues by the big Greek banks and the flotation of a further 12 per cent of OTE, the government-owned telecoms operator, the *stock* market has itself expanded.

A year ago the sheer size of some of the capital increases, ranging from $100m to $650m, would have swamped the Greek market. But international institutions have bought sizeable tranches, encouraging domestic investors to follow suit. Athens now has a capitalisation at Dr11,300bn or more than 30 per cent of gross domestic product.

Hellenic Bottling Company, the Coca-Cola franchise holder that is Greece's biggest investor in the Balkans, is acquiring Molino Beverages, its Luxembourg-based partner, to create the first listed Greek manufacturer with annual sales of more than $1bn.

Analysts say the market is likely to slow down to digest this year's large inflows of funds. In the past few days, too, political anxieties have resurfaced as Greek-Turkish tension heightened over Cyprus, triggering a bout of nervous selling.

Kerin Hope

SOUTH AFRICA

What will happen when Nelson Mandela goes? **Roger Matthews** looks ahead to the day when the probable next president, Thabo Mbeki, takes over

Smooth transition to a new era

South Africa must soon face up to life without Nelson Mandela. As with most events in the post-apartheid era the transition is planned to be gradual, unstressful and consensual. It almost certainly will be. But under Thabo Mbeki, who is scheduled to take over the leadership of the African National Congress in December, the demand for more substantial change in South Africa is also likely to be answered more emphatically.

Few claim to know Mr Mbeki well, and therein probably lies his success in having climbed the ANC ladder to within one rung of the top. It is obvious he cannot inherit Mr Mandela's exceptional blend of authority, magnanimity, and talent for inspiring genuine affection from all races. The loss of those qualities, in a national transition which has still decades to run, will probably be felt far more acutely than many people suspect.

Mr Mbeki will have to draw on other qualities when ba takes over the leadership of the ANC and progressively takes responsibility for government in the run-up to succeeding Mr Mandela as national president after the next general election.

There are a few pointers to the probable themes of a Mbeki presidency. The articulation of a new vision for Africa will figure prominently. His emotional speech to the constitutional assembly in Cape Town last year, punctuated by the refrain "I am an African", offered some guidance, and it has been followed by several others with the theme of an African renaissance at their core.

How this will translate into political or economic action is far from clear. But it seems to articulate several strains, some of which may not be comfortable for the white minority. Many ANC leaders believe that whites, especially the more affluent, have been slow, even reluctant, to reciprocate the generosity shown by Mr Mandela. There is a feeling that whites may believe tbey have completed their contribution to the political transition, and now feel free to snipe while consolidating their economic dominance; in sbort that whites are opposed to contributing to a more substantial transfer of power. The cruel comment by a Nigerian minister that South Africa was a white country with a black president was not just bitterly resented, it also hurt.

A man with Mr Mandela's history of political struggle can brush aside such charges, but tbey might strike a more sensitive chord with Mr Mbeki. When the ANC's top people sat around after the 1994 election waiting for Mr Mandela to announce bis cabinet appointments the one thing on which most were agreed was that he would be bound to announce a black finance minister. "We knew he had to do that to show the world there was a truly new political situation in South Africa," says one minister. Mr Mandela chose a white finance minister, and then another. Only when Trevor Manuel took office last year did South Africa have a black in charge of the portfolio, three years into the administration.

Such cantion on racial matters is unlikely to be a hallmark of Mr Mbeki's presidency. Not only is the ANC now demonstrably in charge, it feels increasingly less need to pay attention to sucb international concerns. There is also today even less of an electable alternative to tbe ANC. The National Party, which ruled from 1948 to 1994, bas lost FW de Klerk, its one leader of real stature. It is divided within itself whether it should concentrate on maintaining power in the Western Cape, where it controls the provincial government, or try to be part of a wider political realignment. The confusion can be expected to he reflected in a declining share of the vote at the next election.

Unlike the National Party, the Inkatha Freedom Party, headed by Chief Mangosuthu Buthelezi, has remained in the government coalition but it appears to be a diminishing political force, albeit with the capacity to stir further mischief, particularly in its home province of KwaZulu-Natal. Other smaller parties, including recent new creations, appear unlikely to do more than snap at the ANC's heels.

The future direction of South Africa will much better be judged by the outcome of struggles within the ANC. From the many issues being debated, two stand oot: first the battle over economic direction; secood, whether the so-called "populist wing" bas the capacity to unsettle the leadership.

Mr Mbeki himself is aligned with modern thinking within the ANC on economic matters. He understands about global competitiveness, market forces, international capital flows and the irrelevance of tbe old Marxist dogma to which some of his colleagues still cling. But be is not about to take unnecessary political risks while the top job is not yet fully within his grasp.

The trick for Mr Mbeki is to keep nudging his party in the right direction, while pledging total commitment to the reconstruction and development programme which exists to assist the most disadvantaged members of society. He must similarly retain a good working relationship with the trade union movement, which will help to underpin his personal political ambitions, whila trying to ensure that the relationship is not perceived as an obstacle to investment, foreign and local.

Without that investment the domestic hopes for South Africa, let alone its ambitions for the region, will count for little. Those South Africans who enjoy higher standards of living tend to be enthusiastic consumers, but second-rate savers. Savings levels are about 16 per cent of gross domestic product, compared with the 25 per cent the government believes necessary to achieve an annual real growth of 6 per cent, and the more than 30 per cent recorded by south-east Asian economies which have consistently turned in growth rates of closer to 10 per cent.

Soutb Africa is not remotely near those levels, and must therefore rely on others' savings if it is to escape the worrying cycle of modest annual growth, and relentlessly higher unemployment which for years has been at politically hazardous levels. Long-term capital inflows have been disappointing and seem unlikely to accelerate if the findings of tha latest survey of European business confidence in South Africa are an accurate guide. Although 80 per cent of respondents were positive about the economic situation, there was an alarming decline in companies' confidence in the government's ability to tackle crime effectively, or to reduce what is perceived to be a sharp rise in corruption.

While such sensitivity is being demonstrated it is not belpful for South Africa's international image to have a convicted kidnapper nominated for election as deputy-president of the ANC. At least, that would be the view held by many white people. It may also be shared by the majority of blacks, but the history of struggle against white oppression is too recent, and even too current, for the candidacy of Winnie Mandela, the president's former wife, to be lightly dismissed. Mrs Mandela will almost certainly never become deputy-president of South Africa, if only because that appointment is the prerogative of the president, not ANC delegates. But the rank and file of the ANC could well feel it is time the party's leadership was reminded who is ultimately boss in a democracy.

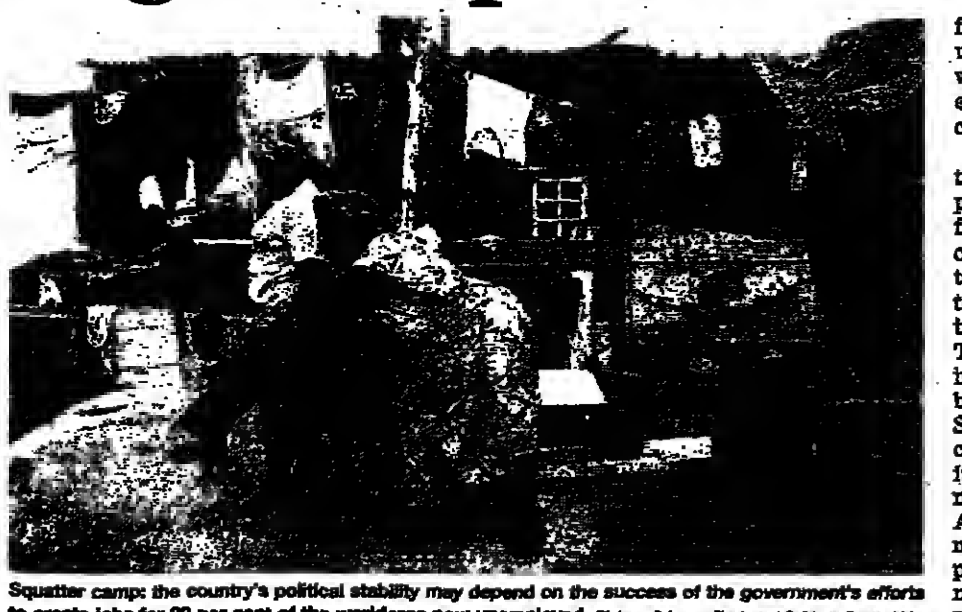
Whatever her aberrations and the opulence of ber life style, Mrs Mandela is still seen as a champion of the oppressed. ANC ministers, driving around in similar cars, are increasingly said to be out of touch, and supping deeply from what is known locally as the gravy train. Straightening out those perceptions will, if anything, become more difficult after Mr Mandela.

But in his more than three years in power, Mr Mandela has not sacked a single minister for incompetence, or simply being unsuited to the job, a remarkable record for a government which took power with virtoally no administrative experience. Mr Mbeki, by contrast, could be less loyal and choose to offer more purposeful, focused government, with clear priorities and a determination to achieve them within a set timetable. Those qualities are at an even greater premium today, and if delivered would help substantially to cushion the impact of Mr Mandela's departure from the political scene.

THE ECONOMY • by Roger Matthews in Johannesburg

Pretoria gears up to create jobs

The plight of the unemployed is at the heart of economic policy and *stability*



Squatter camp: the country's political stability may depend on the success of the government's efforts to create jobs for 30 per cent of the workforce now unemployed *Picture: Odyssey Illustrated Guide to South Africa*

Debate over economic policy in South Africa has in the past three years fallen victim to *fashion. Initially*, labour policy was all the rage, the result of the close relationship between governmentand the trade unions. This, *however*, was later perceived to carry the risk of the economy becoming trapped in a straitjacket of relatively high wages, low productivity, little flexibility and centralised bargaining.

Advocates within the ANC of a reduced state role in economic management then *took up* the *running*, attacking the government for its adoption of Rosa (the government acronym for the "restructuring of state assets") which was seen as a poor substitute for slicing off chunks of the flabby public sector and offering the leaner bits for privatisation.

Next, the government came under sustained pressure to drop everything and *remove all remaining foreign* exchange controls. Chris Stals, long-serving governor of the Reserve Bank, refused to contemplate a "big bang", and stuck to his preferred policy of gradual liberalisation. He has since been crit*icised* for his conservatism, and refusal to slip into more casual monetarist garb.

Much of the suggested tailoring of government and central bank attire was recommended by representatives of South Africa's biggest companies, peopla who, according to the African National *Congress*, were themselves "strangling economic growth and blocking foreign investment". But despite *the* ANC's professed desire to smash the dominance of the big conglomerates, uothing further has been heard about new legislation on competition policy for some time. Equally, those who reflect the thinking of the nation's captains of *industry appear* also to have adopted a less combative style.

This may be good news all round, but especially for the unemployed, the biggest, least vocal and most unfashionable lobby in South *Africa*, whose *plight is at the* heart of economic policy and perhaps the country's political stability. The government is not alone in not *knowing where* this *mass* of people, which probably represents 30 per cent of the workforce, fits in to an overall policy approach largely dictated by the imperatives of global competitiveness.

Despite the sniping, the government has done, or is committed to doing, much of what has been demanded. Policy may sometimes lack conviction, but even the government's *sharpest critics* acknowledge it has shed an important part of the ideological clothing with which it approached economic issues eight years ago. Its growth, employment and redistribution strategy (known as Gear and introduced in June last year) is accepted by the World Bank and IMF as a model of economic orthodoxy with its emphasis on reducing the budget deficit, capping inflation, removing trade barriers and improving competitiveness.

Many of Gear's goals are certain not to be met within the intended time scale. It *aims for growth next year of* 3.8 per cent (almost double this year's likely outcome) rising to 4.9 per cent in 1999 and more than 6 per cent in *2000*. The real bank rate is forecast to drop from 7 per cent last year to 3 per cent in 2000, and the budget deficit as a percentage of gross domestic product to decline from 5.1 per cent to 3 per cent over the same period. *Most challenging of all*, Gear is hoping for an annual acceleration in the rate of job creation with the goal of more than 400,000 new jobs *in the final year of the* millennium.

In a typically dry assessment, the IMF puts the challenge into perspective. It said in its latest report unemployment rates were extremely high and would continue to increase for some time, even on the basis of the enhanced policy framework presented in Gear. It

The IMF also takes issue with the International Labour Organisation which has suggested that unemployment levels may be significantly below the estimates of 29-33 per cent often used by ministers. "If any*thing, these estimates could* be too low," says the IMF. This translates into 3.4m-4.6m people, and includes areas of unemployment among blacks which reach over 50 per cent of the workforce, with the worst levels concentrated in provinces such as the Eastern Cape and Northern Province. Whites with few skills, who were protected by apartheid *from black competition*, are also feeling the squeeze and the increasing number of whites begging ou the streets of Johannesburg bears *testament* to this.

The government's dilemma is acute. It is bound to continue with the traditional medicine prescribed to an economy with South Africa's inherited weaknesses. Inflation is now comfortably below double figures but monetary policy will only be relaxed as the excessively high demand for credit eases.

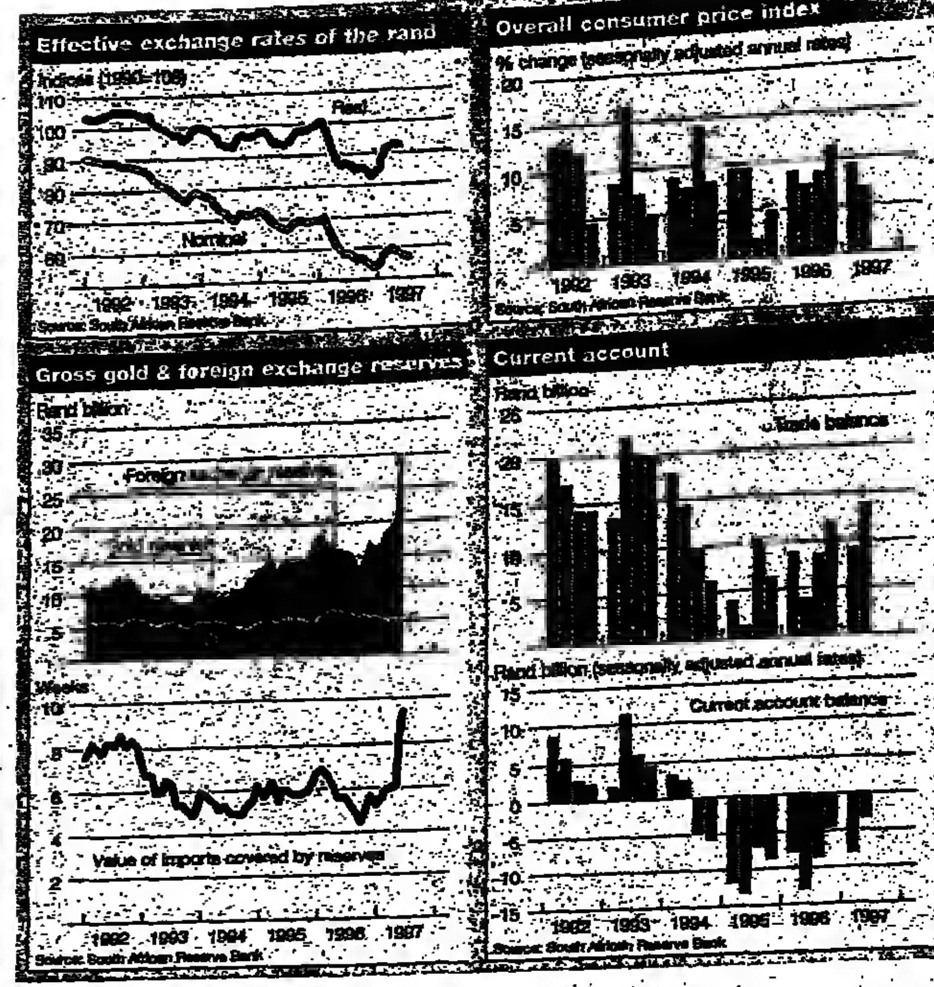
Trevor Manuel, the minister *of finance*, has pinned his political credibility to the flag of falling budget deficits, and says he is on target to deliver a further decline to 4 per cent of gross *domes*tic product by next March. Tariff protection for local industries must continue to be Iowered in line with South Africa's international commitments and those of its *immediate* trading partners within the Southern African Development Community. But uone of those policy commitments offers much hope to the unemployed, especially in the short term.

There is another *nasty* twist to the tale. While the third world part of the economy has yet to begin creating jobs in sufficient uumbers *to absorb new* entrants to the market, the first-world part is shedding staff at an alarming rate. "Total formal sector employment outside agriculture increased only once during the past seven years, when the average level of employment rose marginally in 1995," says the Reserve Bank.

During that sama period nearly 400,000 jobs were lost in the formal sector, representing a drop of nearly 7 per cent. Mining, construction and manufacturing have been overwhelmingly responsible for tha losses. The trend is continuing this year with additional losses in manufacturing, and in mining which is expected to be further hit by the sharply lower gold price. By contrast the public sector is still gaining *numbers, absorbing* an additional 110,000 employees in the 1989-96 period. The one area where the government's economic strategy is ahead of target is job creation in the public sector, where in 1996 total numbers rose by 2 per cent compared with the target of 1.4 per cent.

One of the several dangers in *these overall* employment trends is that the werking elite of South Africa, whose wages have continned to outpace inflation, will leave their jobless brothers and sisters yet further behind. New legislation implemented last year has contributed to the steady reduction in days lost to strikes, but employers claim *the* new regulations makes them more wary of employing staff. This caution may increase further if draft legislation before parliament strengthens basic conditions for employees by progressively rednciug the working week, raising overtime payments, and providing a number of other statutory benefits.

Debate over the bill is likely to be stormy, as some *proposals* are strongly opposed by both unions and employers. The timing of the debate could also coincide with the government's plan to hold a "jobs summit", aimed at asking experts from all sectors to suggest the correct mix of policies which would deliver overall growth while creating employment. Until that formula is found, and South Africa is by no means alone in the quest, tha spectre of jobless growth will bedevil the government's efforts to persuade the ANC that it is on the right economic track. As with most fashions, what had fallen out of favour is once again proving popular.



FOREIGN INVESTMENT • by Bernard Simon in Johannesburg

Newcomers rush in but tread carefully

The big deals that signal enthusiasm for South Africa have been few and far between

Ticking off the dozens – even hundreds – of foreign *companies that have* established a presence in South Africa since the end of sanctions is a less meaningful exercise than assessing the *depth of their commitment*.

"Buoyant but not booming" is how BusinessMap, a Johannesburg consultancy, describes the investment pattern. Its latest investment report estimates foreign direct investment flows at about R27bn between mid-1994 and early 1997.

But caution has been the watchword. The BusinessMap study also concludes "new investment to date has been disappointing". It estimates entirely new inflows – as opposed to expansions of existing facilities, reinvestment and intentions that have yet to materialise – at only 15 per cent of total spending.

Foreign interest in South Africa was bound to *pick up* with the end of sanctions. Many of the "newcomers" are actually old investors re-establishing themselves in the *country, often simply* by buying back the stakes that they sold to local managers and institutions in the 1980s.

Some investments – such as the appearance of McDonald's golden arches and an array of deals involv*ing foreign hotel* chains and casino operators – are less a vote of confidence in the uew South Africa than a rush to fill a gap in a long-neglected *market. Many* companies have trumpeted their arrival with a flashy public relations blitz, when in reality their presence amounts to little more than a small sales office to liaise with local distributors.

The megadeals that signal real enthusiasm for South Africa have been few and far between. Telekom Malaysia and US-based SBC Commnnications earlier this year bought 30 per cent of Telkom, the local *telephone* company. Dow Chemical paid R1.2bn for control of Sentrachem, one of the biggest chemicals producers. Planned *privatisations* have attracted strong foreign interest, although the vast majority of sell-offs have yet to materialise.

According to BusinessMap, the bulk of direct investment has come from the US, Malaysia, the UK, Germany and Japan, in that *order*. Almost three-quarters of the total has been concentrated in five sectors: telecommunications (22.2 per cent); energy (15.6 per cent); automotive (14.4 per cent); food and *beverages* (13 per cent); and leisure and tourism (6.6 per cent).

In each case, the figures include a handful of unusually *large deals, such as the* R5.3bu investment in Telkom, and the R1.9bu purchase by Malaysia's Petronas of a 30 per cent *stake in Engen, an oil refiner* and distributor. (The figures wera compiled before tha Dow/Sentrachem deal.)

Foreign investors have *also* pnt sizeable *amounts* intq South African equity and debt markets. Mike Brown, chief economist at Société Générale Frankel Pollak in Johannesburg, says that after a hiccup in November 1996, "there's been persistent foreign buying this year".

According to the Johannesburg Stock Exchange, net uou-resident share purchases up to mid-September 1997 climbed to R19.3bn, from R5.9bn a year earlier. Foreign residents' share of total purchases grew to 13.2 per cent from 7.3 per cent. (The figures are not comprehensive, including only non-resident deals executed through the JSE). Foreigners have also bought an estimated R10bn of South African bonds this year.

European and North American financial institu*tions* have snapped up stakes in most of Johannesburg'e biggest sacurities dealers.

The government generally welcomes foreign investment, and operating conditions are in some ways easier than during the apartheid era. Employment and trading practices are under less scrutiny from abroad. Many foreign investors have begun using South Africa as a springboard to other parts of the sub-continent. Tax holidays and grants are available for new manufacturing *projects*.

Sturdier economic growth, reinforced by development programmes and deregulation, hava opened uew *business opportunities*. Thad Goff, managing director of, the three-year-old local subsidiary of Cargill, the US food conglomerate, says "one *of* the primary reasons we came back was liberalisation", in this case the demise of the control boards which previously had a stranglehold on markating such products as maize, wheat, deciduous fruit and oil seeds.

A growing number of foreign companies seeking government and local authority *contracts find* it advantageous to team up with "black empowerment" groups, including the proliferating investment funds run by predominantly black trade unions. For instance, many of the consortia vying for new casino licences com*bine a well-established US or* European casino operator with a local black company. A new government procurement policy, outlined earlier this year, aims to encourage small – and especially black – businesses, labour-intensive methods of production, and the participation of local *communities* in new projects.

These attractions have not been sufficient, however, to overcome the significant *costs and risks of investing* in South Africa.

Crime – of both the violent and white-collar variety – has become a serious *deterrent to foreign* business. Many expatriate executives and their families find it difficult to settle into a society where electronic gate *openers*, complicated car locks, electrified fences and constant watchfulness are an unavoidable part of everyday life.

Business must also contend with a disturbing level of fraud and corruption. The customs and excise department and the police are often *singled out* as two of the worst culprits, but tax evasion, kickbacks and other unethical or illegal practices are also pervasive in the pri*vate sector*.

Productivity of both labour and capital is another concern. A World Economic Forum survey of international managers *earlier* this year gave South Africa second worst marks *out* of labour markets in 53 countries. The complaints range from militant trade unions to confroutational management, and a severe shortage *of* skills, especially of computer experts and engineers (many of whom have emigrated).

Some foreign investors have been frustrated by the dominance of a handful of local companies across a wide spectrum of the South African economy, manifested in an intricate web of cross-shareholdings and directorships, and a clannish "inner circle" of business leaders.

Rumours are legion of potential acquisitions that have been thwarted by local competitors, suppliers or customers. A planned overhaul *of* the Competition Act will come not a moment too soon for many existing and prospective foreign investors.

The investment climate over the next few years will be influenced to a large extent by the government's progress in moving ahead on the abolition of currency controls, privatisation and deregulation. The fact is however, that some of investors' biggest concerns, such as crime and a poorly-educated workforce, are likely to *take* many years to overcome.

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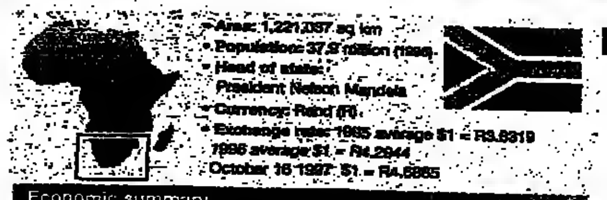


- Area: 1,221,037 sq km
- Population: 37.9 million (1996)
- Head of state: President Nelson Mandela
- Currency: Rand (R)
- Exchange rate: 1995 average $1 = R3.6319; 1996 average $1 = R4.2944; October 16 1997 $1 = R4.6865

Economic summary

	1995	1996
Total GNP ($bn)	131	124
GNP per capita ($)	3,162	2,923
Real GNP growth (%)	2.9	3.7
Inflation, consumer prices (%)	8.7	7.4
Share prices, ind comm (1985=100)	244	284
Agricultural output (1979-81=100)	89.8	112.9
Mining production (1990=100)	99.3	98.8
Gold (tonnes)	522.38	495.4
Diamonds ('000 carats)	9,683	9,941
Iron ('000 tonnes)	31,946	30,660
Copper ('000 tonnes)	162	153
Manganese ('000 tonnes)	3,199	3,254
Coal production (m tonnes)	206	262
Manufacturing output (1990=100)	103.0	103.3
Exports fob (Rbn)	101.0	98.8
Gold (Rbn)	20.2	26.3
Imports fob (Rbn)	96.0	116.3
Balance of trade ($bn)	0.7	2.4
Current account ($m)	-3,489	-1,974
External debt ($bn)	32.0	32.9

Compiled by Abdul S. Bemath

Mining

Mining sector accounted for 8 per cent of GNP in 1996. Gold accounted for 21 per cent of total 1996 exports. South Africa is a major exporter of iron, granite, asbestos, manganese, chrome and titanium ore and coal. Foreign exchange earnings from mineral exports were worth R44.9bn in 1996. Coal exports in 1996 were worth R7.893bn.

Agriculture

EXPORT EARNINGS

1995 R5.843bn

1995 R6.45bn

CONTRIBUTION TO GDP

1994 5.1%

1995 4.4%

1996 4.7%

The sector is highly diversified and a wide variety of food crops are successfully grown. Main crops include maize, sugar, citrus and deciduous fruits, grapes, sorghum and groundnuts. Livestock farming also important. Wool exports are also earning valuable foreign exchange, R762.109m (July 1996 - June 1997)

Industry

In 1996 the industrial sector as a whole contributed 21.7 per cent to GNP and employed 27.4 per cent of the workforce.

Sources: South African Reserve Bank; Development Bank of Southern Africa; Minerals Bureau; Nedcor ; Chamber of Mines; Standard Bank; South African Wool Board; Central Statistical Service; ABSA

BLACK BUSINESS • by Mark Ashurst in Johannesburg

Reality dampens celebrations

The legacy of a series of epic deals a year ago is a sharpened sense of risk

A year ago, black business groups were celebrating what appeared to be a quantum leap in their bid for a bigger share of economic power. The two largest *transfers of white-owned* assets to blacks were under way, and their companies were building a formidable record on the Johannesburg Stock Exchange.

Led by Cyril Ramaphosa, the former secretary-general of the African National Congress, a broad-based consortium of business and trade union groupings had acquired Anglo American's controlling stake in Johnnies Industrial Consortium, ths diversified holding company with interests spanning beer, property and newspapers. Negotiations leading to the birth of South Africa's first black-controlled mining bouse, JCI, were days away from completion.

A year later, the legacy of those epic deals is a sharpened sense of risk among the new participants in the country's unfolding economic drama. Lower import tariffs and rising international competition in many sectors have triggered a creeping liberalisation of the tightly-controlled economy. In the process, a number of black businesses have discovered that they, too, can be the casualties of change.

The most spectacular failure has been New Age Beverages, the black-controlled producer and distributor of Pepsi and other soft drinks. Launched amid a fanfare of publicity in 1995, NAB absorbed more than R800m in less than two years before it went into liquidation in May this year.

A joint venture between black trade unions, Pepsi International, and a US consortium that included an array of black American celebrities, NAB advertised Pepsi as a politically correct cola. In contrast to Coca-Cola, which had maintained its presence in South Africa throughout the apartheid era, Pepsi's return to the country coincided with the advent of democracy.

Under the slogan "the choice of a new generation", the brand made significant gains in the predominantly black consumer market. When the company eventually collapsed, its young management team blamed its defeat on a shortage of capital and the entrenched position of its larger rival. Amalagamated Bsverage *Industries*, the largest distributor of Coca-Cola, reacted to competition by barring Pepsi from Coke-branded refrigerators and announced a R1bn investment to improve distribution.

For all that, subsequent attempts to sell the Pepsi franchise to new bnyers havs revealed that weak management and poor control of cash flow may have been among the reasons for NAB's demise. "Yon have to get something very wrong to blow R800m in that space of time," says one financier involved in the liquidation.

Next to Pepsi, the most ill-fated of the recent black empowerment ventures has been the sals of JCI, the world's sixth largest gold producer. Acquired in November for R54.50 per share by a consortium led by Mzi Khumalo, JCI has been hit this year by the slump in bullion prices and a swift fall in the Johannesburg gold index.

The stock is trading at about R27 per share, a level which has precluded other members of Mr Khumalo's consortium from taking up more than a token stake. One of these was Reuel Khoza, chairman of Co-ordinated Network Investments. "Nobody at that time could have seen what was going to eventuate. In the short to medium term it's near disastrous," he says.

Mr Khumalo's efforts to salvage his investment are likely to hasten a further spate of consolidation in the African mining industry, where the ferment of corporate level merger and take-over talks offers new opportunities to advance black business interests. Of these, perhaps the most significant is the march on Gold Fields of Sonth Africa by New Africa Investments, the country's largest black-owned company of which Mr *Ramaphosa is deputy-chairman*,

Mr Ramaphosa's bid for joint control of the world's third largest gold producer was scuppered earlier this month by a rival offer from Gencor which will merge with Gold Fields next year. The process will unwind Gold Fields's complicated ownership structure, creating a new opportunity for New Africa to acquire 5-10 per cent of the merged company.

How New Africa will finance this stake, valued at about R1.7bn, in the wake of the debacle at JCI remains unclear. The Johannesburg market has lost its appetite for megadeals, although New Africa's control of Metropolitan Life, the life assurer which dominates the black consumer market, may help to soothe nerves.

With the exception of JCI, black-controlled companies have comfortably outperformed the overall index of the Johannesburg Stock Exchange. Known among brokers as black chips, these companies make up 2.75 per cent of the market capitalisation of the JSE.

This percentsge will be swollen by the stock market listing of Old Mutual, the country's biggest life assurer and equity investor, which intends to convert to a listed company within two years. The size of the new company is expected to rival South African Breweries, the third largest company on the Jobanneaburg Stock Exchange with a market value of almost R50bn.

Old Mutual estimates that about 50 per cent of new members who have bought policies in the last three years are black, while employee pension funds administered on behalf of black workers and trade unions are a substantial minority of established business. Mike Levett, chairman of Old Mutual, describes the demutualisation as "a massive empowerment exercise" for all shareholders. In an economy obsessed by the pace of black economic empowerment, it is likely to create more black shareholders than any acquisition yet by black entrepreneurs.

PROFILE Reuel Khoza

Entrepreneur wears many hats

The JCI debacle was 'tantamount to a sparrow trying to lay an ostrich egg'

Like many of South Africa's emerging black entrepreneurs, Reuel Khoza wears many hats. He is chairman of Eskom, the national utility which supplies more than 50 per cent of Africa's electricity, founder of Co-ordinated Network Investments, an unlisted investment company, a consultant specialising in change management in the corporate sector, and one of the most prominent casualties of this year's collapse in the Johannesburg gold index.

CNI was one of eight members of the consortium which acquired Anglo American's controlling stake in JCI, the mining bouse sold in November to the African Mining Group. Today he describes that bid as "tantamount to a sparrow trying to lay an ostricb egg". Henceforth, he will "focus on biteable cbunks that we can chew (and) create in our own image".

His ambitions at JCI were scuppered by the swift fall in JCI's share price in the aftermath of the deal, which Mzi Khumalo, JCI's new chairman, eventually funded with only token involvement by other members of the consortium. Although CNI did not miss out on JCI altogether, Mr Khoza's group emerged bolding less than 2 per cent in JCI and a seemingly worthless option to purchase a further 4.9 per cent before April 1998 at R54.50 per share – more than double the current market price.

He remains infuriated by the transaction which he believes failed to promote black economic empowerment and cost Anglo a "very important opportunity to demonstrate magnanimity". Although he still hopes "to transact with Anglo in this lifetime", his frustration may explain wby he is one of very few black business people prepared to speak candidly about the most sensitive aspects of black empowerment.

Reuel Khoza: speaks candidly about black empowerment

In recent months, he bas been staunchly critical of black and white interests in South Africa's short history of asset transfers to blacks. He is simultaneously dismissive of the culture of entitlement that pervades much of the debate among aspirant entrepreneurs, and disillusioned by what he perceives as a fragile commitment to conclude meaningful deals on the part of many white-owned companies.

"Questionable expectations and flawed arguments have led us from a position where we all understand blackness to be a necessary condition for the economic transformation to a position where we now seem to believe blackness to be a sufficient condition for economic transformation," he said in a recent speech to black business people.

"We allow any self-serving corporation to dangle a seemingly tasty morsel of corporate equity and to encourage us to fight among ourselves for the privilege of doing business with them, or compel us to enter into unwieldy consortia that are not coherent, cogent or stable. We let others palm off their tired, wasting assets to us."

In stark contrast to some of the most prominent black businessmen who cut their teeth in the liberation movements and have made quick fortunes by moving into business, Mr Khoza has spent his working life in the corporate sector. "I don't want to pretend I represent the so-called greater good," be says. "I grafted for 22 years working for major corporations in junior management, and I am not a millionaire yet."

After 11 years advising its middle and top management at Eskom, the state-owned electricity otility, he was a logical candidate to take over as chairman in March this year. Apart from two years as a psychology lecturer at the University of the North, the 47-year-old management consultant has spent most of his career in the marketing and personnel departments of white-owned companies. "Ten years ago it was quite an achievement for a black person to be a personnel officer," be recalls. "They wouldn't even call us managers."

Much of his work then involved trade unions, many of which are emerging as a significant force in the investment industry through their control of workers' pension funds. The possible contradiction between the unions' traditional role on the shop floor and their new role as investors is highlighted by their resistance to the government's tight monetary and fiscal targets. Mr Khoza is not deterred by the tensions. "I made it my business to visit the unions individually and what they seemed to object to is not an issue of substance, but the fact of not being consulted over economic policy," be says.

Commenting on a strike last month at South African Breweries by members of the Food and Allied Workers' Union, which indirectly owns a stake in the company, he argues the unions' pay claim should be assessed purely on its merits. "I see no reason why unions shouldn't be self-critical. You have tensions within the Roman Catholic cburch, but we all want to go to beaven."

A more salient issue for him is the material contribution investors make to tbe management of their assets, a factor which will influence the financial terms available to black businesses seeking credit from institutions. "If you can bring intellectual capital, you can access other peoples' money."

Within CNI's fledgling empire of nine investments, he cites Tolcon, a construction company, as an example. Tolcon was granted tenders to work on the Maputo corridor infrastructural development only after admitting black shareholders, he says. "We are not absentee investors. We manage the investments jointly and we open doors where they were slammed in the past."

The alternative in many instances has been for black companies to rely on pyramid structures and non-voting shares which enable them to control assets in whicb they own only a modicum of capital. Sucb arrangements, says Mr Khoza, have encouraged the proliferation of "fancy ownership and financing structures and courtesans who make the critical decisions behind the scenes".

Mark Ashurst

PRIVATISATION • by Bernard Simon in Johannesburg

Sell-offs at a snail's-pace

Pretoria's leadership on privatisations has turned out to be less than decisive

Thabo Mbeki, the deputy-president, raised high expectations in the business community in December 1995 by throwing his weight behind a determined privatisation initiative. Supporters of a smaller role for government in the economy were further cheered by last year's growth employment and redistribution (Gear) strategy which pledged "decisive leadership" for a programme of "asset restructuring".

However, Pretoria'e leadership has turned ont to be less than decisive, and the disposal of state assets has so far proceeded at a snail's pace. The emphasis in many cases has shifted from outright privatisation to partial sales, and to outsourcing government operations to private contractors in the form of "public-private sector partnerships".

The most successful – albeit little noticed – privatisation has been the sale of several well-known radio etations formerly operated by the South African Broadcasting Corporation, with total proceeds of about R500m. The sales followed a transparent and competitive bidding process overseen by the Independent Broadcasting Authority, an autonomous body that regulates TV and radio. In spite of being racked by internal disputes, the IBA is now in the process of assessing bids for a national commercial TV network to compete against the SABC.

The only other outright privatisation completed by early October 1997 was the R50m sale of Sun Air, a small airline, to varions investors, including Rethabile, a black empowerment group, and Comair, one of Sun Air's rivals. The government has also raised R5.3bn from the sale of 30 per cent of Telkom, the national telephone company, to Telekom Malaysia and SBC, the US regional telecommunications group.

Other privatisation candidates include South African Airways, Safcol (forest management), PX (parcels delivery), Aventura (holiday resorts), Alexkor (a diamond mine in the northern Cape), and the Airports Company, which operates the country's main airports.

Numerous foreign investors have lined up for a stake in these businesses. But the process of selling them has proved to be more drawn out and hesitant than Mr Mbeki appeared to promise in 1995. The government now appears nervous of relinquishing control of some of the privatisation candidates. Outside shareholders are likely to be offered, at least initially, no more than 49 per cent of SAA or the Airports Co.

Much of the blame for the slow progress has been laid at the door of Stella Sigcau, the public enterprises minister, who is responsible for moving the process along. Ms Sigcau has lacked the political clout to take on eome of her cabinet colleagues directly responsible for enterprises slated for privatisation. Her small office has increasingly come to resemble the doomed reconstruction and development programme (RDP) portfolio under Jay Naidoo, who now holds the broadcasting portfolio.

In the absence of firm leadership from Ms Sigcau or Mr Mbeki, divisions within the ruling ANC have exacerbated the gridlock. Tensions over the sale of SAA surfaced earlier this year between Mac Maharaj, the transport minister and a proponent of privatisation, and Saki Macozoma, managing director of Transnet, the transport conglomerate whose snbsidiaries include the airline and PX.

But other obstacles have also put the brakes on the eell-off. The government complicated the process early on by promising close consultations with the labour movement. The Confederation of South African Trade Unions (Cosatu) initially took an uncomprising stand against privatisation, accusing the government of "betrayal".

Cosatu has pushed for a bigger, not smaller, public sector to satisfy the country'e huge social and economic needs.

Some unions have recently adopted a more nuanced approach as the realisation has grown that they risk being left on the sidelines as the sell-offs continue. They have given their blessing to plans for Alexkor's privatisation, under which outside investors would acquire no more than a 50 per cent stake, with the remaining shares split between a local community trust (30 per cent) and employees (20 per cent).

The unions are pressing for a similar deal in the Safcol privatisation, which has been held up by, among other things, local communities' land claims against Safcol-managed forests.

With the brakes on privatisation, budget pressures have encouraged politicians of all parties to take a close look at outsourcing and contracting-oot services to the private sector.

Private capital and knowhow is widely seen as a way of quickly expanding infrastructure, especially in rural areas.

Nelspruit, in the eastern province of Mpumalanga, was due in mid-October to launch a pioneering private-public partnership with a decision on a 30-year deal to operate water and sewage plants in the area.

Consortia headed by the UK's Biwater and France'e Saur and Lyonnaise des Eaux were in the running. The winner will also take over metering, billing and revenue collection, but will be required to support black advancement by, for instance, using local contractors and workers. The central government has also invited bids from private contractors to build and operate five maximum-security prisons.

Ontsourcing has so far generated less controversy than privatisation. Nevertheless, questions have been raised whether some governments, especially at the provincial and local level, are able and/or willing to put in place a fair bidding process for contracts, and to exercise proper control over their implementation.

Sankie Mtembi-Mahanyele, the housing minister, is embroiled in allegations that a company controlled by a friend benefited improperly from home-building contracts in Mpumalanga.

The delays and hesitation have proved costly. The financial condition of some privatisation candidates, notably SAA, PX and Safcol, has deteriorated markedly in the past two years. SAA, which has long enjoyed a near-monopoly on domestic and international routes, ran up a loss of R323m in the year to March 31, partly as a result of intensifying competition.

Questions are now being raised whether the government should shelve the sale of poor performers until they are restructured and restored to health. On the other hand, managers of some privatisation candidates bave pointed to the risk of continuing to lose opportunities to the private sector while their companies remain paralysed by uncertainty over their future.

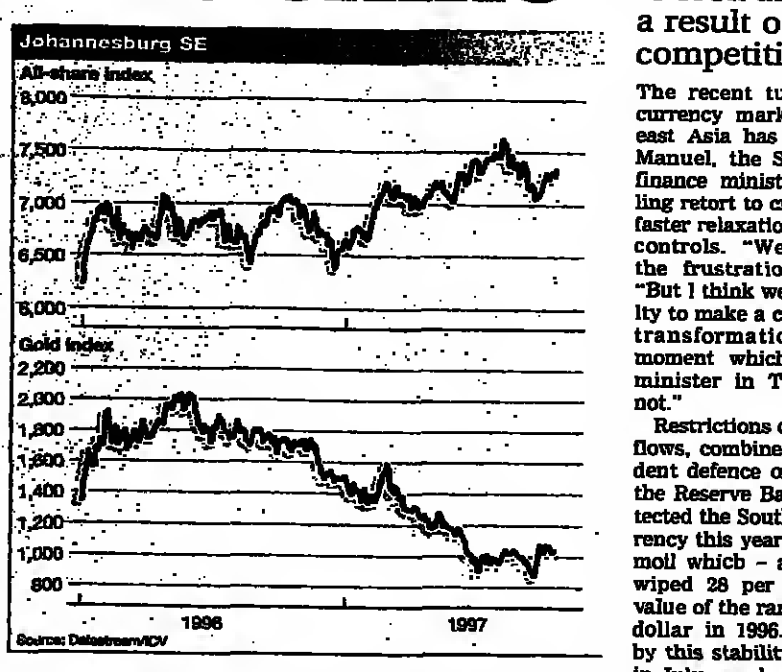
On balance, chances are that the government will press ahead with a number of outright and partial sell-offe over the next year, including SAA and Safcol. But the process is likely to remain hesitant until Mr Mbeki decides the time is opportune to throw his wholebearted support behind it.

Profits of privatisation candidate South African Airways are being hit by intensifying competition

JOHANNESBURG STOCK EXCHANGE • by Mark Ashurst

Gold fades but financials shine

Most analysts predict a recovery in the traditional blue-chip companies



Brokera on the Jobannasburg Stock Exchange are growing weary of predictions that a roaring bull market is just around the corner. The equity market is busier than ever before, and the excited mood on Wall Street helped push the local all-share index to record highs in August – but a vital ingredient is missing from this beady cocktail. Interest rates remain punitive.

In an effort to curb credit growth and to defend the rand, the Reserve Bank has pitched real interest rates et levels thet are likely to contain gross domestic product growth to less than 2 per cent this year. Althougb local companies are becoming more competitive, and foreign interest in their shares is rising, the overall performance of the boursa has fallen short of the highest expectations.

The strongest gains have been in sectors least dependent on a broad-based economic recovery. Consolidation in the banking sector and a strong performance from insurers has boosted the financial index by one third this year. Technology stocks, a variety of small companies, metals excluding gold, and chemicals have also ranked among the best performers.

A prime lending rate of 20.25 per cent has suppressed growth in industries which have not benefited from tha surge in exports that has followed last year's collapse of the rand. But analysts are generally hullish on the long-term prospects for the sector, due largely to the liberalisatioo of the siege economy fostered during South Africa's isolation.

The industrial index gained 13.4 per cent in the first eight months of this year, and analysts predict earnings growth of 6-8 per cent next year. Smith Borkum Hare predict blne chips will again emerge as favourites among investors, after a year when the impact of lower tariffs has dented the profits of many manufacturing groups. The resulting sqneeze in dividend yields has "undermined the appeal of many industrial holding companies (quasi-conglomerates) as they are presently structured", writes Jos Gerson, chief ecooomist.

As the shake-out among local institutions gathers pace, black business groups have seized the opportunity to increase their stake in the economy. At September 30, so-called "black chips" made up 2.75 per cent of the total market capitalisation of the JSE. Although most financiers believe tbe era of "mega transfers" of white-owned assets to blacks is drawing to a close, the unbundling of South Africa'a most unwieldy conglomerates is still at an early stage.

The government remains committed to further, gradual relaxation of these controls, which will proceed in tandem with other macro-economic reforms. A schedule for the privatisation of a minority stake in South African Airways, the national carrier, is likely to be finalised early oext year. Most insititutions are confident that a one percentage point drop in the bank rate is imminent.

Neither Trevor Manuel, finance minister, nor Chris Stals, governor of the Reserve Bank, have encouraged this speculation. Johannesburg has been spared the kind of volatility that seot foreign investors running for cover last year, but the legacy of last year's corrective action is a bank rate of 17 per ceot. "If we hadn't taken the decision (to raise interest rates) when we did, in the way that we did, I think the price for all would have been substantially higher," says Mr Manuel.

The Reserve Bank has been praised for defending the rand against currency speculators. "Foreigners are not dissatisfied with what is happening in South Africa, and the glass is half full," says Donna Nemer, vice-president of Citibank, South Africa's biggest foreign bank. Net purchases by foreigners topped R17.3bn in the first eight months of 1997, compared with R5.3bn during the same period in 1996. But inflows to tbe equity market cootinue to dwarf fixed investment, and there is a shift into bonds. "There is still scope for volatility. The currency is still very event-vulnerable."

The activity has boosted turnover in the secondary market from R13.7bn in the first quarter of 1997 to R20bn in the first two months of the third quarter. Johannesburg is losing its reputation as a notoriously illiquid market, and both the value and volume of shares traded in the secondary market have increased steadily this year.

The clear exception is gold stocks, which have been hit by tbe slump in bullion prices and persistent problems of productivity at ailing mines. The All Gold index has slumped by 36 per cent this year, as weakness in the bullion market wiped out its appeal as a rand hedge.

However, the problems in the sector are endemic and will oot be repaired simply by a rise in bullion prices from their current nadir of around $320. According to the Reserve Bank, the monthly average price of gold-mining shares declined by 44.5 per cent between May 1996 and July 1997, to reach its lowest level since March 1993.

Most analysts predict the year ahead will bring a recovery in the traditiooal blue-chip companies. It is one of the anomalies of the market that the market capitalisation of diversified holding companies has usually included a discount to net asset value, whila tbeir underlying operations have usually traded at a premium relative to smaller stand-alone companies.

The gradual easing of excbange controls bas prompted many of South Africa's biggest institutions to explore methods of increasing their international exposure. Analysts are bullish about the implications. As capital moves offshore, compensation will take the form of higher liquidity and an improved profile for Johannesburg. Mr Gerson points out that South African equities offer the largest exposure to mining of any emerging markets, the third largest to finance, and the fifth largest to manufacturing.

OUTWARD INVESTMENT • by Mark Ashurst in Johannesburg

Blue chips spread their wings

Local companies are being forced to look abroad as a result of rising competition

The recent turmoil in the currency markets of south-east Asia has given Trevor Manuel, the Soutb African finance minister, a compelling retort to critics urging a faster relaxation of exchange controls. "We understand the frustration," be says. "But I think we have an ability to make a contribution to transformation at tbe moment which the finance minister in Thailand does not."

Restrictions on capital outflows, combined with a prudent defence of the rand by the Reserve Bank, have protected the South African currency this year from the turmoil whicb – at its worst – wiped 28 per cent off the value of the rand against the dollar in 1996. Encouraged by this stability, Mr Manuel in July eased restrictions on offshore investment by individuals.

With the Reserve Bank braced for a dramatic outflow of about R5bn, about 20 per cent of Sonth Africa's foreign exchange reserves. Mr Manuel announced a ceiling of R200,000 on currency movements by individuals. A month later, a mere R144m had left the country – well below most estimates – and officials at the department of finance ware congratulating themselves on a well managed anticlimax.

For tbe 100,000 wbltes wbom analysts estimated could afford to move such capital offshore, the ettractiveness of foreign investments appears limited – at least for tbe time being. "The freedom to diversify," says Dorian Wharton-Hood, vice-chairmen of Liberty Life, "makes the chances of getting an investment wrong a thousand times more likely."

In contrast, South Africa's blue-chip companies can no longer afford the luxury of staying at home. The demise of tbe siege economy fostered during isolation, rising competition in local markets, and the dismantling of protective tariffs at bome have forced the biggest local companies to look abroad.

Tbe trend is evident througbout most sectors of the economy, from banking to brewing. But the most spectacular transformation has been at Gencor, formerly the country's second largest mining group, which in July this year demerged its precious metals and moved its base metals interests to Billiton, a new FTSE 100 company listed in Loodon.

The move raised £1bn in new capital, confirming Gencor's transformation from a sprawling South African conglomerate to an international mining group. Much of the proceeds will come back to southern Africa, where Billiton is poised to build a new aluminium smelter in the Mozambican barbour capital of Maputo and possibly a zinc smelter in the Eastern Cape.

In the financial sector, local Institutions bave scrambled to acquire exposure to foreign markets via the system of asset swaps introduced in 1995. Although current regulations limit the proportion of assets a local institution can bold offshore to 10 per cent, most have found it difficult to find foreign institutions willing to accept South African assets at market value.

The stumbling block is thet asset swaps are highly inflexible, and the foreign party must undertake not to abandon its South African holding. Of the R70bn which institutions are legally entitled to swap, the total valne of asset swaps finalised is about R30bn. "Asset swaps are not natural in as far as you are asking both parties to enter into some kind of limitation," says Mike Levett, chairman of Old Mutual, the country's largest equity investor.

Tbe most innovative expansion bas come from local manufacturing industries seeking new markets elsewhere in Africa to provide a fillip for their fledgling export businesses.

Helped by the weaker rand, sharp growth in non-mining exports this year has further inflated the trade deficit between South Africa and its principal African trading partners. Last year, South African exports to Kenya were worth R940m, compared with imports of R111m. In Tanzania, the trada gap was R611m on imports worth R627m – an increase of 340 per cent on 1994.

This trend has been compounded by Pretoria's failure – after three years of talks – to win significant concessions in trade negotiations with Europe. Altbough South Africa last month ratified admission to the Lomé convention, it has bean excluded from preferential trading terms with the European Union.

Closer to boma, brisk trada and creeping privstisation acrosa mncb of the region have enabled many local companies to acquire assets elsewbere in Africa. According to Christopber Hartland-Peel, African equities analyst at Standard Bank in London, "South Africans are gradually displacing European investors in Central and East Africa".

Sonth African Breweries, the world's fourth largest brewer, has been in the vanguard of this process, with OK Bazaars, the supermarket chain, Profurn, the furniture retailer, and Spoornet, the state-owned rail group, close oo its heels. Local mining houses have been the most zealous pursners of mining rights across the continent, and are the least deterred by the huge losses caused by the scandal of Bre-X Minerals, the Canadian company whose Busang gold deposit in Indonesia was a fraud.

But the greatest impetus for local companies to spread their wings has come from consolidation in global industries such as car manufacturing and oil and gas distribution.

As international parents have bought up the South African subsidiaries left behind during the sanctions era, thay have eet their sights well beyond the local market. Both Nissan and Toyota have invested in longer prodnction linas to enhance economies of scale, and established distribution channels across the sub-Sahara region.

A similar logic lies behind the 30 per cant stake in Engen, Sonth Africa's biggest oil retailer, acquired last year by Petronas, the Malaysian oil and gas company. The company has a vehicle for further expansion in Africa and recently invested R100m in an oil refinery at Dar es Salaam, which includes an option to bid for a network of Tanzanian fuel stations.

PROPERTY

POLITICS • by Roger Matthews in Johannesburg

Dream may become a nightmare

Not one of the opposition parties has made enough progress to challenge the ANC

South Africa's opposition politicians have a dream most nights.

They dream the African National Congress suffers a deep ideological trauma. They see the organisation splinter, with one faction accepting that the nation can only be saved from long-term decline if it fully embraces the disciplines of the global economy. These ANC pragmatists break free from the grip of their communist and trade union allies. The consequence is that Thabo Mbeki, the deputy president, will be poised to become southern Africa's answer to Tony Blair, if be can gather some allies, and Sam Shilowa, the general secretary of the Congress of South African Trade Unions, marches off at the head of his troops, red flags flying, to whistle emptily in some distant veld.

As dreams go, it might not seem that fantastic. The ANC is made up of as many strands of opinion as South Africa has provinces and languages. The alliance is loosely and primarily bound by the common objective of reversing the damage inflicted by apartheid over the past 50 years, and racism over three centuries.

The differences over how this should be achieved are huge, and should be exploitable. And when the ANC does fracture, according to the opposition parties, effective government will only be achieved by coalitions, through which the junior partners expect to extract important concessions. The immediate aim must therefore be to limit the ANC to less than 50 per cent of the vote.

But the opposition also suffers nightmares. The most common is that the ANC continues to show the same durability it has demonstrated since 1912, holds together, and, most frightening of all, increases its share of the vote by 3 per cent in the April 1999 general election. This would deliver the 65 per cent parliamentary majority required for the ANC to amend the constitution without the support of any other party. Such thoughts, with their wider and unhappy African associations, tend to keep politicians from sleeping at night.

The temptation for opposition parties to indulge in dreams, or suffer nightmares, is understandable. None has made much progress since the last election in 1994, and some may even have lost ground. And this despite clear evidence the ANC has shed members, is weaker structurally, and is being forced to dismiss a quarter of its staff and sell its head office because of financial problems. Should the ANC's problems translate into fewer votes at the next elections, which seems probable, there is as yet no indication that former supporters will transfer their allegiances. More likely they will stay at home.

Opposition parties do not know which way to turn, but inward seems to be the most likely direction. The National Party, by far the largest with 20 per cent of the vote, last year set off to discover a new future. Roelf Meyer, then secretary-general and chief navigator, concluded that without a black leader, and a restructuring of South Africa politics, no opposition party would stand any chance of unseating the ANC. He also believed the process might include disbanding the National party as part of a wider realignment.

It was not a proposal which FW de Klerk, the party leader, felt able to recommend to the membership. So Mr Meyer left the party. Mr de Klerk followed a few months later in what he presented as an attempt to free the organisation from its apartheid past. Sadly for Mr de Klerk such a liberation is not within his gift, nor probably within that of his successor, the youthful Marthinus van Schalkwyk. The new leader has yet to reveal a distinctive view of the party'e future, and sceptics doubt that he ever will. The reason for the scepticism is that even within the ranks of the National party it is admitted that Hernus Kriel, the leader of the National Party in the western Cape, could have taken the leadership, had be so wished.

Mr Kriel's desire to remain leader of his home province, rather than bead the party in parliament, speaks volumes. It suggests that he and the core of the National party would rather consolidate their base in the Western Province, where they control the provincial assembly, than risk losing traditional support by seeking to widen the party's appeal. The Democratic Party, under Tony Leon, underwent a similar exercise at the last election.

In a bid to win more black votes it frightened off some of its traditional liberal white support, and suffered accordingly. Mr Leon will not make the same mistake in 1999.

So far, so relaxing for the ANC. Unless, of course, the United Democratic Movement turns out to be a party of substance. It was formed in September to the cheers of aeveral thousand delegates and a three-hour musical introduction which might have seemed over the top at a US party convention.

Even the press photographers appeared to be written in to the choreography as Bantu Holomisa, ex-ANC, and Mr Meyer, ex-National Party, jointly took the podium to the strains of "An impossible dream".

Whether they amount to anything more than the sum of dissidents who fell out with their bosses is too early to assess. The mercurial Mr Holomisa, with his appeal to the more radical among black youth, coupled with the rather wooden Mr Meyer, who has never enjoyed a large personal following to supplement his undoubted organisational skills, may just be an unlikely enough combination to succeed. Of course they will be accused of not having any detailed policies, but at this stage it may be enough for them to keep repeating the potent slogans of "jobs for the unemployed" and "capital punishment for killers".

And, of course, they will have to find a sufficient flow of funds for that message to be broadcast widely and often. Even then, the UDM would do well to gather more than a few per cent of the vote in 18 months' time.

While it is dangerous for western experience to be employed in making African political judgments, one that probably stands the transition is that oppositions do not win elections, governments lose them. The ANC will do its unwitting bit towards encouraging the opposition, but as yet the opposition is not ready to reap the reward, and may not be for an extended period.

Trying to shake off the apartheid past: new National Party leader Marthinus van Schalkwyk and his wife Suzette *Picture: AP Photo*

FOREIGN RELATIONS • by Michael Holman

Reborn Africa reaches out

Ideological battles between the old left and the pragmatists persist in the ANC

"The African Renaissance is upon us," declared Thabo Mbeki, South Africa's deputy-president, in an eloquent speech last April setting out his aspirations for his country and the continent.

A new political order is starting to shape Africa, he told the US Corporate Council on Africa, characterised by shared democratic values, a commitment to economic reform, and a determination to restore the pride and self-confidence of a continent demoralised by traumas ranging from the slave trade to post-colonial dictatorships, the Cold War and apartheid.

The renaissance under way, declared Mr Mbeki, means multi-party governments, a crackdown on corruption, the emancipation of African women and reversing the continent's brain drain and the flight of African capital.

It was a speech which, together with his "I am an African" address marking the endorsement of South Africa's new constitution, is likely to serve as a guide to Pretoria's foreign policy and the credo for the presidency of the man almost certain to succeed Nelson Mandela.

The concept of Africa's rebirth, however, appears in one important respect to mean something very different to the man who coined it, and to an influential faction in the party expected to implement it.

As Mr Mbeki sees it, a vital ally in the African transformation is the foreign investor, drawn by the increasingly attractive business environment created by pressing ahead with economic reforms.

"Africa has and is readying itself for growth and development, fuelled by her own efforts and the profitable and safe injection of international private capital," Mr Mbeki told US investors in his renaissance speech.

But for the ANC'e department of political education and training, foreign capital is seen as not an ally but an adversary: "The success of the renaissance depends on the extent to which it challenges globalisation."

The document goes on to present a view of a world in which old ideological battles are still being fought. "Progressive social forces" are ranged against "capitalist global forces", and South Africans are alerted to the dangers of "imperialism" and "neo-colonialism", and urged to resist the "superpower scramble for Africa".

And there is a new foe to confront. "At the core of the vision for an African renaissance is a sustained and vigilant challenge against the strategic orientation of globalisation, says tha document, prepared for the ANC congress in December.

Mr Mbeki's desire to ancourage foreign investment would seem incompatible with this view, seen as a reflection of the tension within the party between what might be called the old left and the pragmatists.

He will have the opportunity to try and reconcile the two conflicting views at the congress.

Two of the developments Mr Mbeki hailed as evidence of Africa's renaissance may be turning sour.

The peace pact in Angola, a country he described as "a new star of hope", now seems close to collapse following the failure of Jonas Savimbi, the leader of the country'e Unita movement, to abide by the terms of the 1994 settlement.

His portrayal of Zaire – since renamed Congo – as "democratic, peaceful, prosperous, a defender of human rights, an exemplar of what the new Africa should be" may be at best premature.

For all the protestations to the contrary, South African attempts to broker the peace process in Zaire had little discernible impact on the outcome, and there is little evidence that Pretoria subsequently has much influence on events as the new government of Laurent Kabila struggles to cope with its formidable legacy.

But it is Nigeria where Pretoria's foreign policy limitations bave been most exposed.

It was President Nelson Mandela who led the outraged reaction to the military regime's execution of Ken Saro-Wiwa and eight other activists on the opening day of the 1995 Commonwealth summit in Auckland.

Mr Mandela threatened economic sanctions should General Sani Abacha fail to return Nigeria to democracy. Instead, two years later, with Commonwealth leaders preparing for this month's summit in Edinburgh, Pretoria appears to have backed away from confrontation, and seems likely to settle for Nigeria's continued suspension from the organisation.

This indifferent track record has not deterred Mr Mandela from pursuing mediation efforts in Sudan's civil war, and in East Timor, with little to show for it in both cases.

Commentators blame Pretoria's limited expertise and an unrealistic faith in President Mandela's personal influence. And in the African arena, its capacity is limited by the fact that its army is neither trained nor adequately equipped for a regional peace-making role.

"If South Africa wants the rest of Africa to take beed of its message on democratisation, it has to do something about building a credible military force," says Moeletsi Mbeki, a current affairs analyst and Johannesburg businessman.

This may change. After initial reluctance, parliament has supported defence department proposals to buy four corvettes, four submarines as well as other equipment seen as essential if Pretoria's diplomacy is to have range as well as muscle.

Where Pretoria has been more successful, however, is developing South Africa's "south-south" links, seeking cloaer ties with leading countries in the southern hemisphere and making up a group which could lobby in world trade and security arrangements.

Relations with Malaysia in particular have developed rapidly, thanks in part to cordial personal relations between Mr Mandela and prime minister Mahathir helping to catapult the country into Sonth Africa'a fourth largest foreign investor.

Barely a year ago, Malaysia accounted for less than 1 per cent of assets owned by foreign companies with direct investment in South Africa. Today it holds 5 per cent, and total overall foreign direct investment has reached US$1bn. Malaysia is also one of the contenders for a stake in South African Airways.

Pretoria continues to maintain, however, close links with Britain and the US, despite strains with the latter over the proposed sale of tank firing systems to Syria, and the maintenance of friendly relations with Cuba and Libya.

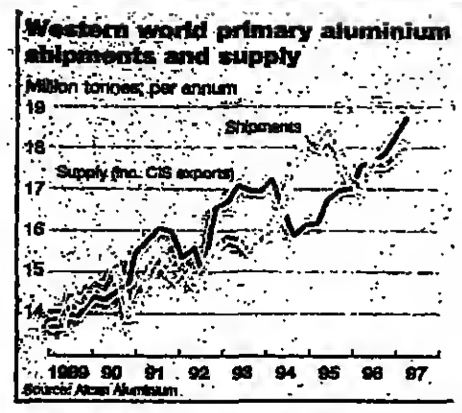
Consolidating ties with mainland China, expanding links with Asia and South America, and maintaining cordial relations with Europe keep Pretoria on track for the position that would ensure that its voice is heard at the highest level – representing Africa as a permanent member of an expanded UN security council.

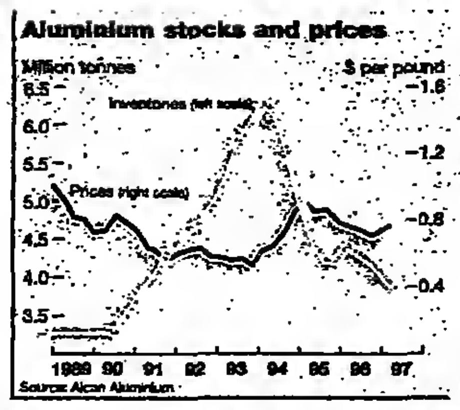
ALUMINIUM

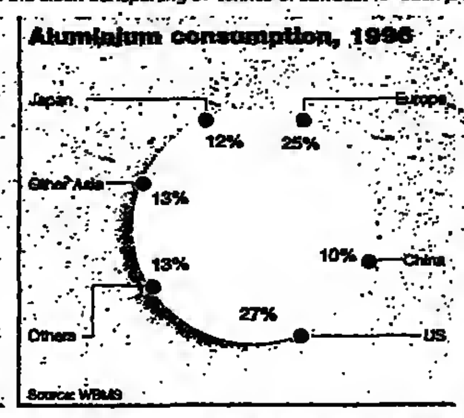
The global march of market economics, with its increasing wealth and consumption, is good news for the most upwardly mobile of metals, reports Kenneth Gooding

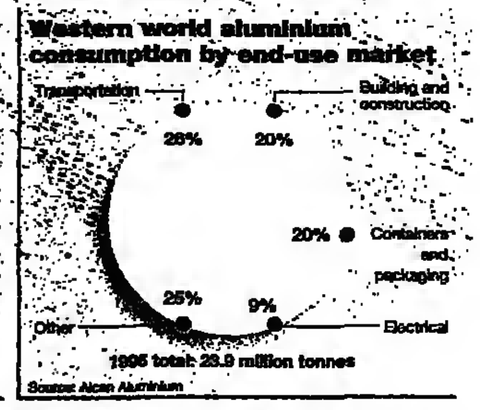
A 'fabulous time' to be in the business

One of the world's biggest bulk transporters was designed and built by Interconsult of Sweden, part of the Svedala group, for Ramstroms Bulk of Kalmar. To optimise volume and payload, aluminium was used for tanks instead of steel. The vehicle works round the clock transporting 37 tonnes of sawdust for each journey from a parquet factory to a nearby power station









Aluminium is often described as a metal for the middle classes – which is wby producers are approaching the millennium with such confidence.

"It is hard to imagine a better time to be in the aluminium business," says Jerry Sheehan, chairman of Reynolds Metals of the US, the world's fourth largest producer. "We are living in a time of unprecedented opportunities. As the world's economies accelerate and free enterprise takes over in so many nations, a global middle class will begin to develop. Over the next 15 to 20 years, as this economic expansion occurs, it is going to be a fabulous time to be in the aluminium business.

"As economies develop, they first need infrastructure, such as bridges, electrical pnwer distributinn, schools, hospitals and housing. As incomes rise, they begin to acquire consumer goods – pots and pans, packaged materials, soft drinks and, gradually, bicycles, motor cycles, vehicles and trucks. This presents wonderful opportunities for us and for our customers to serve growing, developing populations."

As a relatively young metal – aluminium emerged for the first time as a pure metal only in 1825 – aluminium has had to fight hard to gain ground against more traditional materials. During the last 20 years it has experienced growth everywbere as aluminium's characteristics – light weight; strength; corrosion resistance; conductivity; durability; long life and ease of fabrication – won admirers. And, as Mr Sheehan insists: "No other material recycles as well as aluminium. None."

The biggest growth has been in two end uses: transportation and beverage cans. During the 1980s, aluminium beverage cans conquered the US fizzy drinks and beer markets. In the 1990s, they began to take on the rest of the world. Now, as the industry heads into the next millennium, it believes the biggest growth will almost certainly come from the automotive market.

Aluminium's successes are the result of the substantial investments in researcb, product develnpment and facilities made by producers. To win over tbe beverage can market, aluminium producers invested beavlly in rolling capacity to produce the required quality. In the automotive market, tbe industry bas focused on developing the alloys and fabrication technologies for an expanding number of applications.

Yet, in spite nf virtually uninterrupted, if steady, increases in demand for the metal, the industry bas failed to reap financial rewards.

Jacques Bougie, president of Alcan of Canada, the wnrld's second-biggest producer, says his group has made returns exceeding its cnst of capital – tbe weighted average cost of debt and equity after tax – in only two nf the past 14 years. The aluminium industry as a whole acbieved this only once.

This is about to change, for several reasons.

● Firstly, tbe worldwide movement towards market economics tbat followed tbe collapse of the Soviet Union, prompting privatisations in its former satellite countries and also in China, is bringing great benefits to tbe aluminium industry. Completed or mooted privatisations in tbe industry add up tn nearly 5m tonnes of annual primary aluminium production capacity, or close to 20 per cent nf tbe western world total. Among the big state producers, only Venezuela has still to complete tbe auctinn nf its assets to the private sector and this is scheduled for next year.

"It is inconceivable that this retreat of the state will not bave effects on the industry's long-term behaviour," says David Humphreys, chief economist at Rio Tinto, the world's biggest mining company. "State involvement bas for years been blamed for an unhelpful reluctance to close uneconomic capacity or to close non-viable projects for reasons of prestige or job preservation."

Government-owned commodity businesses also tend to use that commodity to generate foreign exchange, no matter what the market conditions might dictate.

● Secondly, the big aluminium producers bave gone through a period of restructuring. "Companies are focusing on their core businesses wbere they used to be vertically intergrated," says Mr Humphreys. "Vertical integration sometimes disguised tbeir high cost operations. All companies are looking closely to identify those areas wbere tbey make a proper return – and are acting ruthlessly in some cases."

For example, Mr Bougie points out that, in the past three years, Alcan has sold 50 downstream businesses witb combined annual sales of $2.6bn. He says that these disposals are, ultimately, for the good of tbe industry because tbe assets have either been sold to nicbe producers, specialising in specific geographic or product markets, or bave been acquired by glnbal companies looking to extend geographic or product coverage. In either case, aluminium is strengthened in its battle with competing materials because the new owners of the assets are fully dedicated and focused on a specific business.

● Thirdly, deregulation of the power supply industries in the US and Europe is changing the economics of the aluminium industry.

Aluminium smelters are buge consumers of energy – an average-sized smelter of 250,000 tonnes a year needs as much energy as a town of 500,000 people. Jochan Schirner, chairman of VAW Aluminium of Germany, says: "This trend will belp the industry to keep costs down. Tbe liberalisation of tbe energy market will lead to substantial relief."

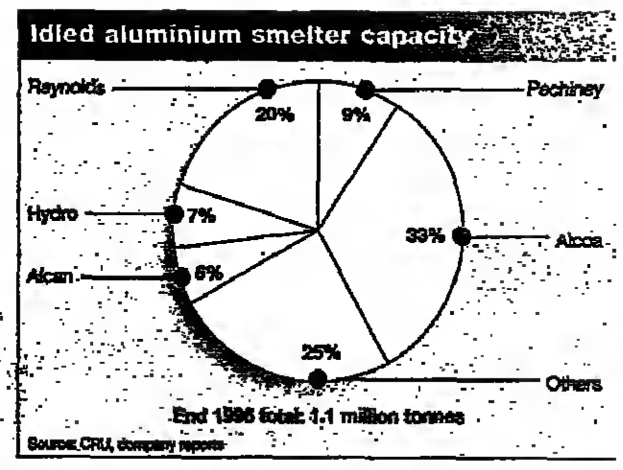
● Fourthly, difficulties caused by the collapse of the Soviet Union, a one-off event that threatened to decimate tbe western aluminium industry, are now over.

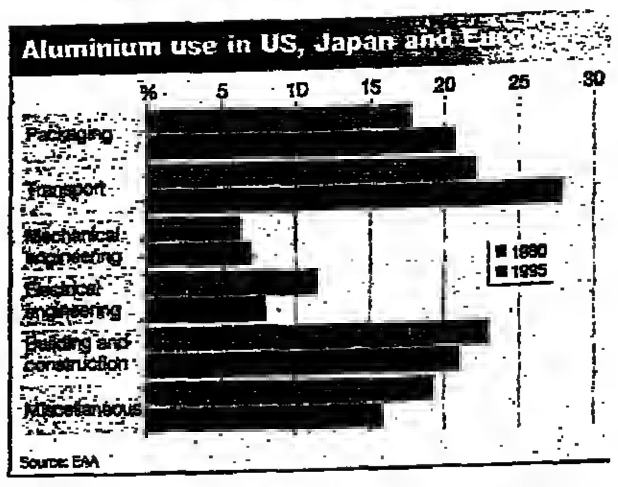
Aluminium, oil and gas bave been the main foreign exchange earners for tbe Commonwealth of Independent States since tbe break-up. Russia's aluminium exports jumped from 500,000 tonnes to 2m tonnes a year. However, according to Mr Bougie: "Russian exports are no longer a nuisance, tbey are now an essential part of western supply." Any interruption to Russian exports would cause aluminium prices to rocket.

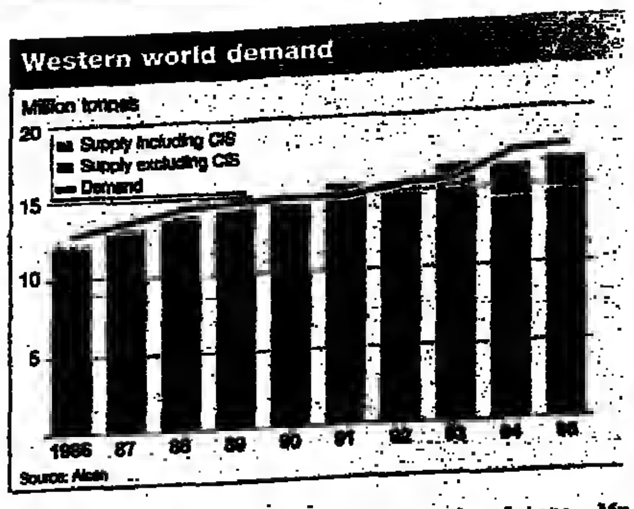
Continued on Page 2

IPAI • by Gary Mead

Keeper of the industry's inner secrets







The inclusion of Chinese data dealt a blow to the IPAI's reputation

The International Primary Aluminium Institute (IPAI) is the keeper of the aluminium industry's inner secrets and preserver of its statistical data.

To quote ths IPAI's guide to its statistical system, its methodology is designed to provide its users with hard and precisely defined historical data on specific aspects of the aluminium and alumina industry".

In March this year that reassuring phrase "hard and precisely defined" was strenuously called into question by Angus MacMillan, the highly-regarded metals analyst with Billiton Metals. He wrote an open letter to the IPAI, registering "dismay" at the Institute's decision to persist with tbe recently-adopted practice of including production figures from China and Tajikistan.

Mr MacMillan claimed that he spoke for a number of analysts and other interested parties when he said, in his letter: "When you instituted this practice without prior notice in February (reporting the January figures) you caused a furore in the market, and were warned that inclusion of data from these countries would result in confusion."

A similar hiccup occurred in 1994, when the unannounced ioclusion of Russian production figures also threw analysts into some confusion, though because the move to include Russia had been industry gossip for some time, there was less turbulence when it actually happened.

What precisely was Mr MacMillan's complaint on this occasion? "People like me depend for our living upon these figures," hs says. "In the case of Tajikistan it didn't mnch matter – there's only one small smelter there and we know roughly how much it produces. But with China the problem is that there are many small smelters, and the majority of them don't even report to the CNNC [China National Nonferrous Metals Corporation] or the SSB [State Statistics Board]."

Mr MacMillan got his way fairly quickly – the IPAI is no longer including figures from China in its regular set of data.

Robert Chase, who after a career in the Foreign and Commonwealth Office in August this year took up the post as IPAI secretary general, believes that while the inclusion of data from China may have been unsuccessfully introduced before his arrival, ths need to includs China, and similar newly-developing primary producers on board, is paramount.

"We are hopeful that eventually we will get China back on board, but we will not rush at it, we have got to make sure that it's done satisfactorily next time. We have no date in mind when China's figures will be included again. We have got to get a realistic view of what they can provide and look and see if that is sufficient to meet our requirements," says Mr Chase.

Ths IPAI's membership accounts for soms 70 per cent of the world's primary aluminium production. The inclusion of China – momentarily – brought that up to around 95 per ceot, an achievement which, hsd it worked, would have been a real credit to the IPAI.

But while it does much more than simply compile statistics – it also looks after the internal needs of the industry in terms of health and safety issues, environmental concerns, and currently feels it needs to more actively promote aluminium – it is the IPAI's highly regarded data that fly the Institute's flag. The gathering and compilation of the data is surrounded with an unusnal degree of secrecy. The system of data collection and delivery is administered by the IPAI Confidential Statistical Officer (CSO), wbo is bound by very stern rules. According to the IPAI "at no time can he enter into any discussion with individual members or official correspondents, with the Statistics Committee or the Board of Directors, or indeed with any member of the pnblic concerning the verification of aggregated IPAI data". According to Mr Chase, the CSO "exists in a state of virtually permanent purdah".

Even aggrieved analysts such as Mr MacMillan understand the IAPI's sense of urgency about including China's data. "I sympathise with them, they're caught between the devil and the deep blue sea over this. They need to be diplomatic and build long-term relationships of trust wlth national authorities and their intentions were of the best, but it's a highly complicated businss. Thay can only solve this problem with difficulty and over time," says Mr MacMillan.

As for the future, Mr Chase says that the IPAI will, in the longer term, be concerned to ensure that when China re-enters the frame, it will be on a more solid basis.

"We recognise that the strength of our system is that we get confidential figures from producers and that because of the confidentiality of the information we are in a unique position. We shall keep np our programme of contacts with the Chinese as, although the Chiness figures did cause this problem, it's absolutely clear that we have to try to include them somehow. This information is wanted and needed."

INDIA • by Kunal Bose

An important global role

The objective is to meet domestic demand then target Asia for exports

India, which is richly endowed with bauxite reserves, is set to play an increasingly important role in tbe global aluminium industry. Much to everyone's surprise, the country's domestic producers – which until a few years ago enjoyed a high level of tariff protection – bave adjusted well to the low import duty regime. And this has given them the confidence to draw up plans to expand their smelters witb associated upstream and downstream activities.

Since india began liberalising trads six years ago, aluminium was chosen as the first important industry to be exposed to global competition. According to Mr A.S.K. Agarwala, president of Hindalco Industries, ths country's second-largest aluminium group, the biggest incentive for capacity expansion is the expected 10-12 per cent growth in annual domestic demand for the metal in the next five years.

"By 2000, India's requirement of primary aluminium will be about 1m tonnes, compared with the present capacity of 670,000 tonnes," said Mr Agarwala.

Nalco, India's biggest aluminium group which is 87.15 per cent owned by the federal government, and Hindalco, are counted among the world's low-cost producers of the metal. Analysts say that to test international waters, these groups are exporting the metal, while India continues to import aluminium.

India's long-term objective is not only to meet the domestic demand but also to sell the metal in Asia, which is to become the world's biggest aluminium consuming region. Industry officials see the possibility of groups in India and the Gulf states forming alliances to mine bauxite and produce alumina (aluminium oxide) in India and do the smelting in the Gulf region where the cost of power is low.

"Such alliances will be highly cost-effective producers of the metal and their principal market wlll be Asia," said a Nalco official.

India's bauxite reserves of more than 2.65bn tonnes – the fourth-largest in the world after Guinea, Australia and Brazil – bavs alumina contents ranging from 40 per cent to more than 50 per cent. Much of the reserves is of a variety which allows refining at a low temperature and low pressure and therefore, at a low cost.

With low extraction costs adding to the attractions, Hydro Aluminium of Norway has teamed up with Indian Aluminium and Tata Industries to mine bauxite at Baphlimali, where reserves total nearly 200m tonnes. They are building a 1m tonne capacity alumina refinery. The entire production of alumina will be exported.

Another wholly export-oriented alumina project, being execnted by Larsen & Touhro, the Indian engineering to cement group, along with Alcoa of the US, will be sourcing bauxite from reserves in the hills of Kuturmali in Orissa. Several other Indian and foreign groups are trying to identify reserves along India's Eastern Ghats running through Orissa, Andhra Pradesh and Tamil Nadu, with the objective of building alumina refineries.

Industry officials say that Nalco, which owns high-quality bauxite reserves of 380m tonnes at Koraput in Orlssa, has established beyond doubt that India could become one of the important sourcing points for alumina. Nalco exports about 400,000 tonnes of alumina a year and the government has approved its proposal to raise the capacity of its alumina refinery to 1.575m tonnes from 800,000 tonnes. It also hopes to get government approval for its proposal to expand the aluminium smelting capacity to 345,000 tonnes from 218,000 tonnes.

According to a SBC Warburg report, the cost of expansion of Nalco will be at least 24 per cent lower than that of a comparable greenfield venture. The same also holds good for Hindalco which is investing Rs17.5bn ($480m) to raise aluminium smelting by 32,000 tonnes to 242,000 tonnes, the capacity of its alumina refinery by 100,000 tonnes to 450,000 tonnes and power generation by 225MW to 575MW. Some of the investment will pay for downstream facilities for making rolled products and aluminium foils.

But because Hindalco cannot expand the smelting capacity beyond 242,000 tonnes at Renukoot in Uttar Pradesh, it has decided to build a new 250,000 tonnes smelter with associated alumina refinery and power complex and downstream activities in Orissa.

Mr Agarwala says: "The group's growth is based on the strength of international competitiveness. Hindalco has a 33 per cent share of the domestic aluminium market and our objective is to have a bigger share of this fast-growing market."

A thriving domestic market and the current world aluminium price of about $1,650 a tonne have led Indian Aluminium, an associate of Alcan of Canada, to gradually recommission its 73,000 tonnes smelter at Belgaum in Karnataka, which was de-energised in 1992. Unlike Nalco and Hindalco, which are self-reliant in power, Indal buys power to run the smelter from a state-owned utility, which is expensive. But the problem will be overcome as tbe group commissions a captive power complex.

Bharat Aluminium, a government undertaking, and Madras Aluminium also have big capital expenditure programmes. Analysts say that the Indian aluminium groups are able to raise low-cost funds from within and outside the country because of their quality operations. Hindalco raised $208m through two issues of global depositary receipts.

THE GULF • by Mark Huband in Cairo

With energy to spare

Smelting is a lucrative use for the Gulf's most plentiful raw material

The rise and rise of Gulf aluminium production has allowed states in the region to add value to their oil and gas reserves while assuring their Asian consumers of regular supplies.

The mania for smelters has gripped the Gulf states from Kuwait to Oman and across the water to Iran. Bahrain's massive Alba smelter, the largest in the region, is now working at full capacity of 500,000 tonnes a year following a $130m expansion, while the introduction this year of the oew Falcon production lina at Dubal, in Dubal, has brought its production up to the expected 375,000 tonnes.

Oman's Sohar smelter, due to come on stream by 2003 with an ambltious production level of 480,000 tonnes, is now well-advanced. The character of the project reflects the strong bond between the Gulf producers and the Asian market.

Charus Enterprises' main foreign partner in the $2.5bn-$3bn project is the Chinese National Non-Ferrous Metals Industry Corporation, with the two working under the title of the Sohar Aluminium Smelter Company (Sasco).

Meanwhile, Kuwait is considering construction of a 230,000 tonne smelter and plans to build s $1bn alumina refinery at Boubyan island are also evolving, with the expectation of achieving a 900,000 tonnes a year refining capacity after s three-year construction period.

Qatar is considering a 225,000 tonne smelter project while Ssudi Arabia may further exploit its Zubairah bauxite deposit, by constructing a railway to Kuwait for processing into alumina, if the cost of constructing the 350 mile track is a viable proposition.


Kuwait plans s $1bn alumina refinery and is considering building a 230,000 tonne smelter

Iran's two Qeshm island smelter projects have been hampered by limited access to foreign exchange. The Almahdi smelter at Bandar Abbas, originally intended to have a 220,000 tonnes a year capaclty, has halved its intended output and is expected by analysts to achieve a mere 5,000 tonnes in 1997, despite having received technical assistance from Dubai.

A smaller, reassembled smelter nearby is expected to see 33,000 tonnes output this year, with plans to increase to 120,000 tonnes.

"The Gulf states are sold on the idea of aluminium. They carry the risks and they get the rewards," says Julian Kettle, aluminium specialist at UK mining consultancy Brook Hunt. Prices have remained around the $1,600 per tonne mark, providing a reasonable profit margin based on production costs of $1,000 per tonne plus expenses.

Vital to this success has been access and proximity to the Asian markets. But expansion of output will be determined by the Gulf producers' ability to expand their still relatively small market share. Japan, for example, only imports 7 per cent of its primary aluminium from the Gulf states, the bulk of its imports remaining dominated by Australia, the US and the former Soviet Union.

The Gulf states' access to reliable energy supplles, either through the gas grid or on-site turbines, lies at the heart of its advantage over domestic producers in Japan. Total Japanese domestic production in 1997 is expected to be a mere 19,000 tonnes, as against consumption of 2.5m tonnes this year. Even so, the Japanese market is now maturing, encouraging the Gulf supplisrs to look to China and India.

Chinese consumption has increased annually by 13 per cent since 1986, compared with 2.5 per cent in OECD countries, and was 2m tonnes in 1997, making it ths second largest consumer after Japan. The rate of growth is expected to settle at between 6 per cent and 7 per cent over the next three years. India, the fourth largest consumer in Asia at 648,000 tonnes in 1997, will produce 555,000 tonnes this year.

The Gulf states' comparative advantage is highlighted by the Chinese experience. Of China's 140 smelters, 20 produce 104,000 tonnes, the remaining, much smaller operators reaching a total of 1.9m tonnes in 1997. But energy costs have hindered the industry's competitiveness, Chinese smeltsrs linked to the grid pay $30-$35 per megawatt hour for power, compared to an average $20 per megawatt hour in the West. India's smelters, fed by vast amounts of low-quality coal, also face an uphill struggle against those of the Gulf.

With up to 70 per cent of Gulf aluminium now sold in these and south-east Asian markets, the majority state-owned suppliers of the Gulf have used their political clout to tailor their export infrastructure to the needs of the market.

"Dubai has superb port facilltiss. Tha container ships coming in would be leaving empty so ws fill them up with metal, whereas most of my competitors have to ship in bulk," says Ian Rugeroni, chief executive of Dubal. "We ship direct to the customer in loads of 20,000-30,000 tonnes, and can practically talk in terms of just in time competitiveness."

Gas prices are negotiable throughout the region but, with both tha energy and aluminium sectors in state hands, the access to regular, low-cost energy is the mainstay of the industry.

Further success depends on the ability of the Asian markets to emerge unscathed from economic crisis. Thailand, Indonesia and Malaysia - the sixth, eighth and 14th biggest consumers in the region respectively - are expected to see a 20-30 per cent drop in aluminium consumption in the coming 12 months.

According to John Martin, research analyst for aluminium and metals at UK consultants CRU International, Japanese consumption is likely to fall by 4 per cent before an upswing at the end of 1997.

But the Gulf producers have been able to expand output of high quality products, achieving up to 99.92 per cent purity, to mitigate against the predicted drop in demand and maintain margins.

"The main reason for the success is that the fundamentals are sound and the return to shareholders was excellent - we make a bundle of money," says Mr Rugeroni.

'Fabulous time' ahead

Continued from Page 1

Another potentially serious consequence of the Soviet Union saga has also been removed this year.

An investigation into whether aluminium producers violated US anti-trust law when, faced with a flood of Russian exports, they made production cuts in 1994 was officially closed by the US Justice Department, which is taking no action.

Producers made cuts after an unprecedented "memorandum of undsrstanding" was signed by trade delegates from Australia, Canada, the European Union, Norway and Russia, as well as the US, in Brussels in February 1994.

The trade delegates concluded that, if the industry was to absorb Russian production into a global system, the industry needed to cut primary output by about 1.5m tonnes a year until ths market had been brought back into balance.

Russia agreed to cut output by 500,000 tonnes a year and western companies were left to maks their own decisions. They made cuts totalling nearly 1m tonnes a year.

This determined action by the big producers caused the anti-trust complaint to be lodged in the US even though the US Justice Department was involved in the trade talks.

The immediate outlook for the industry depends heavily on this idled capacity and, specifically, when it will be brought back into operation. Analysts estimate it totals about 925,000 tonnes, including 450,000 tonnes owned by Alcoa (Aluminium Company of America); 209,000 tonnes owned by Reynolds and 133,000 tonnes owned by Pechinsy of France.

Pechinsy, Hydro Aluminium of Norway and Alcan bave announced they will restart some capacity in the oear future. Analysts insist the rest will be needed over the next two years.

Some suggest there might even be a shortage of production capacity at the turn of the century which would push aluminium prices up sharply.

Not all the big producers subscribe to this theory but all are being extremely cautious about expanding capacity – a new smelter costs well in excess of $1bn.

As Mr Bougie points out, the timing of any move is very important, for individual producers and the industry as a whole.

"We will proceed very cautiously. The last thing we want to do in a cyclical industry is to commit to large investments and find the market collspsing."

TRANSPORT • by Charles Batchelor

Taking off in new directions

New designs of high-speed ferries represent a breakthrough for the metal

The qualities which have made aluminium the metal of choice for aircraft manufacturers for much of this century are now being given growing attention in other transport sectors.

Rising fuel prices and the need to reduce vahicle weights have already given aluminium an important position in the vehicle market. As speed becomes a more important selling factor in the rail and shipping sectors so it becomes possible to justify the extra costs involved and the metal is finding expanding uses in these areas too.

The most dramatic hreakthrough for aluminium has occurred as a result of the rising popularity of high-speed ferries, built to both catamaran and monohull design.

Improved motorway hinks and the replacement of some ferry links with fixed crossings – including the Channel tunnel and hridge-tunnels linking the Danish Islands and Swedan – bave raised travellars' expectations of journey times. Motorists are no longer prepared to accept the lengthy water crossings requlred by conventional ferries.

Until the emergence of fast ferries, aluminium had traditionally been restricted to small workboats, patrol boats and some high performance yachts.

Interest in high-speed ferries, capable of up to 35 knots emerged in the mid-1970s in Australia and Scandinavia. These vessels were typically capable of carrying between 200 and 400 passengers.

Aluminlum's ability to withstand corrosion makes it well suited to maritime use. 8ut these ferries have posed a design challenge for the engineeriog profession. High-speed travel through choppy seas places an enormous strain on the structure of these vessels and there are concarns ahout their fatigue reslstance over the longer term.

Despitc these worries, their early performance has been good enough to encourage designers to build even larger vessels. The Australian-huilt Hoverspeed Great Britain, which came into service in 1990, can carry 100 cars and 600 passengers, while sven larger larger vessels, such as the Stena Discovery operatod by the Steoa Line, can carry 375 cars and 1,500 passengers at speeds of up to 50 knots.

High-speed cargo ships havc yct to make tbelr appearance althougb an early exparlment witb the use of aluminium in a conventional merchant ship produced the Aluminia, a 1,100 dwt product tanker, huilt in Germany in 1960. Research is under way in Australia and Japan into higb-speed vessels which could be used for moving high value, time-sensitive items, probably in containers.

In the rail sector, the use of aluminium was for s long time restricted by the difficulty in producing the very large, complex extrusions required for train bodies. It was the Swiss investmeot in bigger presses and more complex dies which led to s breakthrough in this area.

Aluminium's lightness is important in the design of higb-speed trains but is equally necessary on slower commuter rolling stock where fast acceleration and braking are required to meet timetables.

The incompatible signalling and power systems of the European railways mean locomotives must frequently carry equipment to cope with several different technologies. This puts a premlum oo reducing the welght of equipment where possible.

Aluminium ls well established in the automotive field with the amount of the metal used in North American passenger vehicles tripling from an average of 87lb per car to 252lb over the past 20 years. Reynolds Metals, the third-largest north American aluminium group, forecasts a further rise to 410lh hy 2006 as manufscturers attempt to meet official environmental standards and customer demand for cars which are cbeaper to run.

Reynolds calculates that for every 10 per cent reduction in the weight of a road vehicle there is a 7 per cent increase in fuel economy and a t0 per ceot reductioo in emissions. Reducing the weight of one component in a car means that the weight of linked assemhlies can also be reduced. A lighter engine block, for example, can be supported by a lighter engine cradle.

Audi's Al2 concept car is likely to be the prototype for a high-volume, all-aluminium, small and economical car

The fuel savings possible over the lifetime of such a lighter car have been calculated at between 500 and 700 gallons, a saving of $600 at current US fuel prices and double or triple that figure in Europe and Japan.

The thermal conductivity of aluminium makes it particularly appropriate in radiators, oil coolers and air conditioning systems while its corrosion-resistance qoalities make it ideal for bumpers and other body parts.

Aluminium, it is said, made the modern aircraft industry possible and it currently accounts for nearly 70 per cent of the materials used to make airframes. The metal replaced wood and steel, used extensively in aircraft manufacture in the early 1900s, and the first all-aluminium aircraft was huilt in the 1920s.

The Airbus A3XX, due to enter service in 2003, is expected to hava a total maximum take-off weight of 530 tonnes. Of this 140 tonnes will comprise aluminium alloy structures with about 35 tonnes of carhon fibre reinforced plastics, 15 tonnes of titanium and 13 tonnas of high strength steel.

Aluminium's corrosing-resistance means that aircraft do not oeed to be painted, saving several hundred pounds in weight.

Aluminium has made progress in the transport sector but this does not mean that the manufacturers of competing materials will let it have its own way. Other light-weight materials, such as titanium, are also finding increased uses in aircraft while the steel and copper industries are fighting back in the vehicle sector.

PACKAGING • by Kenneth Gooding

Soft drinks switch to PET leaves industry struggling

Aluminium is under attack in its biggest packaging sector - the drinks industry

Put 50 cents into any of the vending machines at the World of Coca-Cola in Atlanta – housing "the world's largest collection of Coca-Cola memorabilia" – and the soft drink is delivered in a plastic bottle. A year ago the Coke would have been in an aluminium can.

The switch from cans to PET (polyethylene terphthalate) for soft drinks in the US has been so swift and bruising that the aluminium industry is still struggling to come to terms with it.

Aluminium's lightness and flexibility combined with strength, its foldability, good barrier characteristics, non-reactivity in contact with liquids, fats and oils as well as its abundance and recyclability, all make it a formidable packaging material. Innovative design and effective marketing have enabled it to take share in virtually every type of packaging, in spite of its relatively high price, and growth is continuing in many areas.

Cans represent one of aluminlum's most important markets, accounting for 20 per cent of global demand. Cans in the US alone account for 10 per cent of worldwide sales of the metal. Now this market is under threat, not only from PET in the soft drinks business, but also hecause glass bottles are back in favour as beer containers.

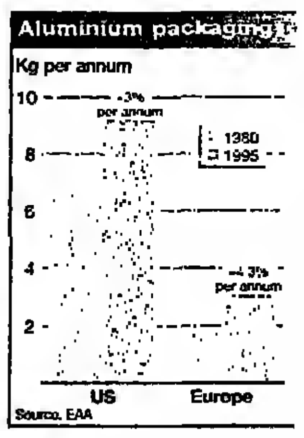
In the US the development of micro hreweries and the perception that "premium" beer should be served in glass hottles is having a noticeable impact. Glass' share of the beer package market in the States moved up from 35.8 per cent in 1994 to 38.6 per cent last year while cans slipped from 64.2 to 61.4 per cent.

"Our market research shows that people think glass is classy and that beer tastes better in glass," says Norman Nleder, group director, packsging technology group at Ansheuser-Busch, the brewing giant. "A can is a can. It is always the same."

Robert Budway, president of the US Can Manufacturers' Institute acknowledged the advances glass is making io the beer business hut insists that the main threat to the aluminium can is posed by PET bottles in the "slogle serve" soft drinks market, primarily in vending. "In the US this is a market of 15bn to 18bn units and 80 per cent of all new vending business is going to PET," he warns.

In 1991 alnminium cans accounted for 55 per cent of US soft drinks packages while PET bottles had 34 per cent. Last year the two were neck and neck at 50 and 47 per cent respectively. While the industry had some tima to adjust to the PET threat in North America, it bas beeo startled by the way the aluminium can's progress in Europe has suddenly stalled.

Heineken's award-winning shaped can looks and feels like a beer glass



Until 1995 demand for aluminium cans in Europe was growing st 9 per cent a year but since then it has levelled off, not only because of the growth in PET bottles but also because the steel industry, not wanting to see the beverage can market go the same way as in the US – where aluminium had nearly 100 per ceot of the market – had fought back spiritedly.

Nick Mason, research manager of the aluminium group at the CRU International coosultancy, says: "Uotil very recently we thought there was scope for the can to peoetrate tbe Europeao heverage packaging mix a little further, eveo though we recognised the looming threat of PET. But we estimate that, after three years of steady gains, the share of the packaged beer and soft drinks market taken by cans fell very slightly in 1996 to just more than 15 per cent."

He points out that it is rare for a product to remain at the top for more than 10 years and that in the US and Europe "we sppear to be at, or close to, the final saturatioo phase in the life cycle of the can, although I do not believe that precipitate decline is inevitable".

Another worry for aluminlum producers is thst the drinks companies, hsving quickly transferred the PET technology to Europe from the States, might do the same in emerging markets, such as those in Latin America, on which the aluminium industry is heavily relying for future growth in the can business.

In soft drinks, for example, two US companies dominate the global business, Coca-Cola, with 47 per cent, and Pepsi with 22.3 per cent. "One lesson from Europe is that there is a risk, scross a whole range of developments in packaging, of a leap to PET," says Mr Mason. "Packaging has become s crucial element of brand identity. Over a relatively short period container and material combinations that offer proprietary distinctiveness have acquired tremendous competitive advantages.

"So far the pace has been set by PET bottles."

Nevertheless, the can remains an excellent container offering, for example, a 30 per cent cost advantage over glass bottles at the filling stage and, at present, competitiveness with PET in the "single serve" container filled in high volumes.

Mr Mason suggests that a "two tier market" might emerge, consisting of a high throughput segment in which system economics still dominate – and in which cans retain many advantages – while the other would be the premium part of the market, "in which the package, as much as the contents, may determine the value of the product to the brand manager".

Ansheuser-Busch's Mr Nieder implies that brewers are still attempting to find a way to win customers hy using cans.

"Cans are much more profitable to us than glass bottles," he points out.

His group is experimenting with embossed cans, cans with labels using 10 colours, cans with photographs on them, cans that change colour to show whether they are cold or warm, cans with "touch-off" tops instead of ring pulls and shaped cans.

However, the plastics producers are now developing bottles made of polyethylene natphthalate (PEN) capable of holding beer, so the plastics threat to the aluminium industry could becoma eveo more serious.

CONSTRUCTION • by Michael Peel

Squeezed out of mature markets

Aluminium must find new uses to reverse its decline as a building material

Graphs showing a continuous 35-year growth in western European demand for aluminium from the construction industry flatter the metal producers.

A chart depicting the steady decline in the percentage growth rate over the period reflects more accurately the way aluminium has been squeezed out of one of its mature markets by competition from alternative building materials.

Faced with the shrinkage in demand in industrialised countries from construction sectors which traditionally use aluminium, producers have been searching for alternative markets for the world's most abundant metal.

In 1980, building and construction accounted for 28 per cent of total aluminium demand in the US, Japan and Europe. In 1995, it accounted for less than one fifth of consumption. "The building and construction sector has declined over recent years," says David Humphreys, chief economist for Rio Tinto.

"That partly reflects the growth of transport and packaging but it is also because there has been intense competition from other materials in the sector."

For cladding, roofing, window and door frames, aluminium's market share has been eroded by cheaper options, such as wood, steel and plastics.

Producers have responded by searching for new uses which exploit aluminium's main advantages over these materials, namely its lightness and durability.

For instance, specially toughened aluminium alloys are finding favour with the offshore industry and a new self-propelled elevator, used during renovation of the Eiffel Tower, the Arc de Triomphe and the Statue of Liberty, relies on lightweight aluminium components.

The system has been developed for residential and commercial buildings of up to seven floors, which account for well in excess of half of the annual European construction industry's aluminium consumption of 1.4m tonnes.

In the US, the industry has been encouraged by recent technological improvements which have raised the prospect that large aluminium bridges could be constructed.

Traditionally, bridges which carry vehicles have been made from concrete, steel or wood. Aluminium is many times lighter than the first two and many times stronger than the last.

Jerry Sheehan, chairman of Reynolds Metals, says that more than 180,000 bridges across the US defined as "structurally deficient" or "functionally obsolete" by the Federal Highway Administration could be saved by aluminium.

This market is potentially substantial - Reynolds estimates that if aluminium were used in all these projects an extra 500,000 tonnes of the metal would be required.

Not surprisingly, the industry is assiduously promoting the qualities of aluminium as a bridge-building material.

In June, Bernard Legrand, chairman of the European Aluminium Association, pointed to the corrosion resistance of aluminium, adding that the metal's light weight means that pre-fabricated parts can easily be shipped over long distances to construction projects in remote areas.

In September, Ivar Hafsett, president of Hydro Aluminium Extrusion, which is part of Norsk Hydro of Norway, said: "There are advantages in maintenance but, most importantly, these bridges can be pre-fabricated, meaning that local traffic is not disrupted during installation."

But others involved with the industry want to see more evidence before they are convinced that this sector can kick-start demand for aluminium in construction. "In the last couple of years there has been a lot of talk about it," says Adam Rowley, a metals analyst at Macquarie Bank Group.

"We had these forecasts put out but I don't think there has been much development in actual use."

The industry has made more headway in countries in south-east Asia which are just beginning to industrialise. Mr Rowley says: "In the developing world it's a different story because you have a huge demand for new housing and, in some countries, there has been huge investment in skyscrapers and residential buildings."

Since 1990, demand for aluminium in Asia (excluding Japan) has risen annually by an average of 7.1 per cent, compared with a growth rate of 2.7 per cent for the western world.

In 1996, Asian countries accounted for nearly 16 per cent of global aluminium demand, compared with 1.7 per cent in 1961.

The dome of San Gioacchino Church, Rome – in pristine condition after 100 years – is probably the oldest aluminium roof in the world

Much of this growth has been due to an increase in the number of infrastructure and private building projects. Construction accounts for about a quarter of aluminium consumption in Thailand, Malaysia and Indonesia.

But the upward trend has been broken by recent currency crises in these countries. Julien Garran, a senior consultant at CRU international, a private consultancy, forecasts that aluminium demand in the region will suffer a double digit percentage drop in the final quarter of this year.

He predicts a fall of 30 per cent in Thailand, the worst affected area. "The [currency] depreciations were accompanied by a sudden shift up in interest rates, a cut back in government spending plans and, in a number of places, a drop in real estate values," he says.

"Private construction has dropped off completely in the fourth quarter of this year and we understand that a number of key infrastructure projects have been postponed."

Mr Garran estimates demand will begin to pick up again in 1999. But he thinks the market is nearing maturity and that the rapid growth of the last few years is unlikely to be repeated. "We are seeing a shift to a more moderate growth rate, albeit better than in the developed world," he says.

In that event, aluminium producers would have to renew the search for new markets. Otherwise, the metal might forfeit its long-held status as a staple material of the construction industry.

CHINA • by James Harding in Shanghai

Conspicuous by its absence in the past few months

There is a frustrating variety of factors which determine the scale of buying

Given its sway in the international metals industry, China has been conspicuous by its absence from the aluminium markets in the past few months.

Nevertheless, while Chinese orders have dried up as domestic stocks have swollen after heavy buying last year and in the first half of 1997, few traders doubt that China will be back.

What remains less clear is the extent of China's appetite for foreign aluminium, not to mention the timing and erratic pattern of Chinese buying.

The factors that will define the scale of Chinese buying, remain frustratingly variable. "There is no clear methodology in China's buying of aluminium," says one Hong Kong-based analyst. "China will become more predictable as its economy becomes more highly industrialised, but we could be talking a period of 10 to 20 years."

There is some demand in China from international suppliers of aluminium in the form of foreign or Sino-foreign joint venture manufacturing industries that have production facilities in China and which rely on raw materials of an international standard.

According to the analyst in Hong Kong, such buyers of aluminium are "easier to track" but they only make up a part of the Chinese market, the rest of which is dominated by state-owned industries. The state companies switch between imported metal and aluminium provided by local smelters, depending on movements in price and changes in government policy.

Government intervention can affect the market in dramatic ways. When prices soared in 1995, Chinese authorities encouraged many canners to shift production away from aluminium and into steel.

With China's car market stalled by the imposition of a tight credit policy since 1994, aluminium smelters and car-makers alike are yet to see the soaring growth in demand for cars that has underwritten expanded production capacity. The levels of aluminium use in car production in China remain comparatively low.

According to Beijing Antaike Information, the subsidiary of the China National Non-Ferrous Metals Corporation that manages information about the national supply and demand for metals, China's consumption of aluminium remains "stable". By this, officials mean that "aluminium demand remains at the same level as last year." They say that there has been a small increase in demand from packaging, vehicle, refrigerator and can producers, but this has been offset by a fall in demand from the construction industry, the largest consumer of aluminium in China, as investment in real estate has declined.

Regardless of the official forecasts, analysts' estimates of Chinese imports continue to vary. Earlier this month, Robin Bahr, head of research at Brandeis, the broking firm on the London Metal Exchange, told Reuters that "China does have a basic need for a minimum of 100,000 tonnes a year to satisfy domestic demand and whether they import two or three times that level depends on the macro-economic picture and the credit policy."

Philippe Thaure, president of Alumax International, told an aluminium conference hosted by the FT and the CRU International consultancy this summer that China would need to import 200,000 to 300,000 tonnes of aluminium to meet demand this year. He forecast that imports could rise to between 500,000 and 1m tonnes over the coming years, depending on expansion of domestic production capacity.

A specialist in the metals markets of southern China who declined to give his name or company said he expects annual demand will be 450,000 to 500,000 tonnes this year.

Forecasts for Chinese buying hang on expectations of the growth of China's output capacity and its ambitions to earn a reputation not as an importer of the metal, but as an exporter.

In the first eight months of this year, domestic aluminium production rose by 11.6 per cent compared with 1996, to a total of 1.26m tonnes, according to Beijing Antaike Information. Officials say that the "increase of domestic output has fully offset the drop in imports".

Chinese smelters have been keen to exploit the differential between domestic and international prices. Customs statistics show exports of aluminium and aluminium alloys were up 145.5 per cent to 136,500 tonnes in the first eight months of 1997.

Officials see further "huge potential in the export market", adding that "Japan and Korea will be the main targets for China's aluminium producers, attracted by higher prices and convenience of transport."

Exports were given a further lift at the beginning of this month with the cancellation of a 20 per cent tariff on exports of aluminium products.

However, some analysts remain sceptical about China's prospects as an exporter. First, some predict that if the Chinese economy lives up to official forecasts of 9.5 per cent growth this year and 8 per cent annual growth until 2000, then production from domestic smelters will be consumed by domestic users. Second, while some aluminium producers in China measure up to international standards, many are small-scale smelters making metal of variable quality unfit for export. And third, questions hang over the prospects of China's national aluminium producers since Beijing has pledged to accelerate reform of state-owned enterprises.

The restructuring in the state sector should improve the efficiency of government controlled smelters but in the process small and medium-sized producers are likely to be forced into bankruptcy or mergers, having a depressing effect on production in the short term.

Over the next few months, China's demand for aluminium will hinge on the size of its stocks. At the beginning of 1997, analysts estimated that a spate of imports and a slackening in usage had driven the stockpile up to 700,000 tonnes.

With a substantial reserve of aluminium still remaining, rising domestic production and prices on domestic markets well below the LME price for the metal, analysts expect that China's return to buying form will depend primarily on price.